Gouvernement
du Québec

Le ministre
des Finances

Statement by Mr. Gérard D. Levesque, Minister of Finance, concerning the Administration of the GST and the Reform of Consumption Taxes in Québec

Québec City, August 30, 1990

Mr. President,

In the April 26 Budget Speech to the National Assembly, I indicated that the Québec government was exploring with the federal government solutions to the serious problems of administrative complexity inherent in the coexistence of the Québec consumption tax system and the Goods and Services Tax (GST) system that the federal government intends to implement on January 1, 1991.

On July 12, the acting Minister of Finance, the Member for Vaudreuil, announced, in a press release, that considerable progress had been made in discussions with the federal government but that more detailed studies were required.

The avenues open to Québec and their consequences were carefully examined. One of these avenues was to do nothing to adjust our consumption taxation system to the GST, but this was quickly rejected because of the unproductive expense and effort that businesses would have had to face owing to the resulting complexity and confusion. The option of taking a wait-and-see attitude was also examined. From this viewpoint, certain adjustments in our consumption tax system could have been made to eliminate minor irritations resulting from its coexistence with the GST. Of course, that could have alleviated somewhat the

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complexity and certain costs for businesses but, while leaving businesses with substantial adjustment costs, this approach could have placed Québec in a situation in which it would have been forced to act in the wake of the eventual implementation of substantial harmonization by certain provinces with the GST. Québec would have been at a disadvantage with such an approach for it is far from evident that the resulting taxation systems and agreements between the other provinces and the federal government would have been well suited to Québec's institutions and context.

The Québec government therefore decided to follow a path that would not only protect the economic interests of Quebecers but would entrench Québec's control over the orientation and management of taxation policies on its territory. This decision led us to take action of paramount importance.

Considering the urgency of making businesses aware of the framework in which they will have to apply the federal and Québec consumption tax systems beginning on January 1, 1991, I will inform you immediately of the results of our negotiations with the federal government and the changes that will be made in the Québec consumption tax system.

Our negotiations with the federal government with a view to substantially simplifying the administration of consumption taxes in Québec have proved successful. I am therefore able to announce today that, beginning on January 1, 1992, the ministère du Revenu will administer the GST in Québec on behalf of the federal government in keeping with a memorandum of agreement between the two governments, which will be signed in the next few hours.

As soon as possible this fall, the ministère du Revenu will hire the additional personnel required for the unified administration of the federal and Québec systems. These staff members will be lent to Revenue Canada until the transfer is completed on January 1, 1992. Federal employees administering the GST in Québec on December 31, 1991 will be

guaranteed equivalent employment with the ministère du Revenu as soon as the operations are transferred. The unified administration will also mean operational savings for the two governments of some $35 000 000 a year.

Transfer of the administration of the GST is an unprecedented delegation in the area of taxation by the federal government. It will considerably simplify the application of consumption taxes in Québec in addition to saving the two governments money. Businesses will have to deal with only one administration and manage similar collection systems. This will be the first essential step toward the desired simplification.

The second step, which is inextricably linked to the first if the taxation system is to be truly simplified and unified administration is to be given its full meaning, will be the result of the reform of the Québec taxation system to harmonize it substantially with that of the federal government. I am therefore announcing the implementation on January 1, 1992 of a new sales tax system. The new sales tax will be collected from the purchaser when most goods and services subject to the GST are sold, within the limits, however, of our constitutional taxation powers. Since its application is broader in scope, the new system will make it possible to reduce the consumption tax rate in Québec to 7 %. It will replace the current sales tax of 9 %, the 10 % tax on meals and the 9 % tax on telecommunications. The changes are described in more detail in the appendix to this Minister's Statement and are an integral part of it. Mr. President, with the consent of this Assembly, I am tabling two copies of the document entitled "Appendix to the Minister's Statement concerning the Administration of the GST and the Reform of Consumption Taxes in Québec".

To eliminate the cascading taxation in our present taxation system and to make Québec goods more competitive on all markets, the new sales tax will include a mechanism whereby businesses will receive a refund of the taxes they pay on their purchases.

The government therefore opted for a Québec consumption tax system with a single rate rather than different rates for different goods. It was felt that, given the coexistence of the GST and the Québec sales tax, such

a system was much less complex to administer for businesses as well as for the government. Furthermore, our studies showed that a reduced rate or exemptions for some goods and services would constitute a needlessly costly way to protect low-income households, for it would mainly be of benefit to households with higher incomes. For example, households earning less than $31 500, i.e. 40% of all households, derive 16% of the total benefits of the exemption for clothing and shoes, whereas households earning over $48 200, which represent the most affluent 40% of all households, derive 67% of the benefits of this exemption.

Lastly, the variable rate taxation systems that many European countries have implemented are now being debated in the framework of the European Economic Community, demonstrating the limits that the mobility of goods and services in an open economy bring to the tax system.

Furthermore, to improve the fairness of the taxation system, an important mechanism, a refundable sales tax credit for low-income taxpayers, will be set up. The credit will mean that the tax burden of these people will not simply remain the same but will actually decrease. In addition, to protect taxpayers' purchasing power fully, I am announcing for 1992 a 4.5 % indexation of income tax credits and EI and PWA program scales. I can assure taxpayers that this reform is in keeping with the government's constant concern in the past few years in regard to low and medium-income families and households.

For example, for a single person living alone on social aid, the $140 increase in his benefits representing the value of the refundable tax credit is equivalent to more than twice the impact of the additional sales tax of $68 per year. If this single person receives an additional $272 from the indexation of his benefits under the EI program, his disposable income will be increased by $344. If he is impaired, he will benefit from the automatic indexation already provided for under the income security system.

The measures announced today will also result in significant gains for families earning up to $50 000. For example, for a couple with two children and earning $25 000, the refundable tax credit of $230 will more than compensate for the impact of the additional sales tax of $147. When the reduction in income tax of $309 as a result of the indexation of essential needs is added, this family's tax burden will decline by $392 thanks to the measures I have just announced. For a similar family earning $40 000, i.e. close to the average family income, the tax burden will drop by $207. Mr. President, these gains for medium-income families will be in addition to the tax reductions we have introduced each year since 1985, with the result that the income tax of such a medium-income family will have fallen from $6 401 in 1985 to $4 129 in 1991, a reduction of 35 %. Furthermore, because of the measures I am announcing today, these reductions in the tax burden will continue in 1992.

In addition, to protect the government's financial framework and given the substantial impact of the reform on improving the competitive position of Québec businesses, it is appropriate and non-prejudicial to modify their taxes somewhat as of January 1, 1992. Over a full year, this change in rates will increase the tax burden on businesses by $297 000 000.

Also, as I indicated, the new Québec sales tax will be implemented on January 1, 1992 at the same time as the unified administration of the federal GST and the Québec tax. During 1991, the federal GST will be in force but it will be administered temporarily by Revenue Canada.

The year 1991 will therefore be one of transition. Given our goal of simplifying the administration of consumption taxes, our government has sought to ensure maximum harmonization of the two systems beginning next January 1, at least as regards the retail trade in goods. I am therefore announcing that movable goods sold retail and subject to the GST will also be subject to the Québec sales tax beginning on January 1, 1991. This will mean a broadening of the tax base so that the sales and telecommunications tax rates can be lowered at that time from 9 % to 8 %, and the meals and hotels tax rate can be lowered from 10 % to 8 %.

In all, over the full year 1992, the measures announced today will relieve the burden on taxpayers by $523 000 000. The effect on the financial framework will total $77 000 000 for the year 1990-1991 and will represent an overall shortfall of $19 000 000 for the three years 1990-1991 to 1992-1993. Since much progress had been made on estimates of the impact at the time of the Budget Speech, these amounts were included in the financial framework tabled on April 26, with the result that the revenue and expenditure as well as the balance of the budgetary transactions as tabled need not be revised.

Mr. President, not only will this reform simplify the taxation system but it will improve it by better adapting it to the requirements of the increasingly competitive international economic environment. In addition, through its compensatory mechanisms, it will allow the government to pursue its efforts over the past few years to improve the situation of low and medium-income households and, in particular, families.

In conclusion, Mr. President, given the exceptional circumstances of today's Statement, I want you to know that I intend to discuss this reform in more detail in parliamentary committee as soon as possible. My colleague, the Government House Leader, will propose that the National Assembly mandate the Standing Committee on the Budget and Administration for this purpose.

Gouvernement du Québec

Press release

Le ministre
des Finances

RELEASE No. 1
EMBARGO : August 30, 1990, 11 a.m.

Minister's Statement concerning the Administration of the GST and the Reform of Consumption Taxes : Highlights

Lower tax burden, harmonization of consumption taxes, compensatory measures for low-income taxpayers, simplification of the tax system, unified administration of consumption taxes

(Québec City, August 30, 1990) — "Since the federal government is determined to implement its Goods and Services Tax (GST), immediate action is needed to eliminate uncertainties among consumers and businesses and spare the latter needless expense. The measures announced today are of paramount importance since they will protect the interests of taxpayers, promote Québec's economy and reduce administrative confusion and its associated costs," the Minister of Finance, Mr. Gérard D. Levesque, said today.

HIGHLIGHTS

Here are the highlights of the Minister's Statement issued by the Minister of Finance.

1. THE NEED FOR GOVERNMENT ACTION

Mr. Levesque indicated major government action was needed now to :

- prevent unproductive expenditure and administrative chaos resulting from superimposing the GST on Québec's existing consumption tax system ;
- simplify the application of consumption taxes for taxpayers in Québec ;
- maintain Québec's decisive role in the orientation and management of fiscal policy within its borders ;
- ensure an active role for Québec in the management of the federal GST.

2. ADMINISTRATION OF THE FEDERAL GST

— Memorandum of agreement

Québec has negotiated an arrangement with the federal government to substantially simplify the administration of consumption taxes in Québec. This historic arrangement will result in the signature of a memorandum of agreement providing for the following elements, among others :

- the assumption, by the Québec government, of the administration of the GST in Québec as of January 1, 1992 ;
- a transition period, starting January 1, 1991, during which the ministère du Revenu du Québec will cooperate in the administration of the GST in Québec ;
- financial compensation by the federal government to Québec for the administration of the GST.

3. HARMONIZATION OF THE QUÉBEC AND FEDERAL CONSUMPTION TAX SYSTEMS

— Reduction in the rate of the Québec sales tax to 7 % in 1992

Since the new system will apply to a broader base, Québec's consumption tax rate will be reduced to 7 % in 1992.

— Broadening of the Québec sales tax base in 1992

- the Québec sales tax base will generally be identical to that of the GST, in particular concerning consumer sales ;
- the tax base will include most movable goods and real property, as well as most services ;
- the taxes on telecommunications, on meals and hotels and on electronic advertising will be integrated into the Québec sales tax base ;
- for business, the Québec sales tax will not apply to purchases of goods and services made exclusively for resale purposes, or to purchases of components of a movable good for subsequent sale, to comply with Québec's constitutional authority in the area of taxation ;
- businesses will be able to claim a refund of the amounts of tax paid on their purchases ;
- a refund of 2.5 % of the tax will be granted for the sale of new housing of $150 000 or less, with a partial refund for residences between $150 000 and $175 000.

4. TRANSITION SYSTEM

— Reduction of the Québec sales tax rate to 8 % in 1991

— Broadening of the Québec sales tax base in 1991

- Québec's sales tax base will generally be harmonized with that of the GST in regard to movable goods only. In 1991, the Québec sales tax will not apply, for instance, to capital assets, to hairstyling or transport services, or to the rental of hotel or motel rooms ;
- the 10 % meals tax will be replaced by the Québec sales tax at 8 %; the existing exemption for meals of $3.25 or less will be eliminated;
- the telecommunications tax rate will be reduced from 9 % to 8 %.

5. FAIRER TAX SYSTEM

Significant measures have been announced to protect the purchasing power of taxpayers, particularly those at low and middle-income levels.

- introduction of a refundable sales tax credit for low and middle-income households ;

Maximum amount : $90 for an adult ;
$50 for taxpayers entitled to the credit for a person living alone ;
$25 for each dependent child ;
$15 more for the first dependent child of a single-parent family.

- reduction to 7 % of the Québec sales tax rate in 1992 and elimination of many exemptions ;
- in 1992, indexation at 4.5 % of essential needs recognized in the income security system and in the tax system.

6. IMPACT OF THE REFORM

In all, the measures announced today represent a gain of $523 000 000 for Québec taxpayers in 1992.

— Reduction of consumption taxes by $239 000 000 in 1992

— Other gains of $581 000 000 for taxpayers in 1992

- refundable sales tax credit : $151 000 000;
- increase in income security scales : $54 000 000;
- 4.5% indexation of essential needs :
  - — tax reduction : $304 000 000
  - — increased benefits under EI and PWA programs : $72 000 000

— Compensatory increase in corporate taxes in 1992

In view of the substantial positive impact of the reform on the competitive position of Québec businesses, it seems appropriate that they contribute to financing the measures designed to improve the fairness of the tax system. Consequently, an increase in their taxes has been announced.

The tax on profits of large corporations is being increased from 6.33 % to 6.90 %, that on the profits of small businesses, from 3.45 % to 3.75 %, and on non-active business income, from 14.95 % to 16.25 %, while the rate of the employers' contribution to the Health Services Fund is being raised from 3.45 % to 3.75 %, and the rate of the tax on capital of corporations from 0.52 % to 0.56 %.

This measure will increase the tax burden of businesses by $297 000 000.

— Financial framework unchanged

The net impact of the measures announced on the government's financial framework was taken into account during the preparation of the 1990-1991 Budget Speech. At that time, estimates of the financial impact of the reform were at a very advanced stage, but negotiations with the federal government on the administration of the GST by Québec had not yet been concluded. This impact is as follows:

1990-1991:	$77 000 000
1991-1992:	$252 000 000
1992-1993:	($348 000 000)
Total :	($19 000 000)

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Source : **Monique Trudel**
Office of the Minister of Finance
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Press release

RELEASE No. 2
EMBARGO : August 30, 1990, 11 a.m.

THE TAX BURDEN REDUCED AGAIN

Gain of $523 000 000 for taxpayers in 1992

(Québec City, August 30, 1990) — "Through its compensatory mechanisms, the reform will allow the government to pursue its efforts over the past few years to improve the situation of low and medium-income households and, in particular, families" — Mr. Gérard D. Levesque.

1. LOWER CONSUMPTION TAXES : $239 000 000

In 1992, with the broadening of the sales tax base and the reduced sales tax rate, the economic agents of the private sector will pay $239 000 000 less in consumption taxes.

2. GAINS RESULTING FROM FAIRER TAX SYSTEM : $581 000 000

The introduction of a refundable sales tax credit will increase household disposable income by $151 000 000.

The increase in income security scales by an amount equivalent to the tax credit will result in $54 000 000 more for beneficiary households.

The 4.5 % indexation of recognized essential needs will mean $304 000 000 less in income tax and an increase of $72 000 000 in benefits under the EI and PWA programs.

3. BUSINESS TAX INCREASE : $297 000 000

As the reform will considerably improve the competitiveness of Québec firms, it is felt that they should contribute to the financing of the measures aimed at creating a fairer tax system. Therefore, their tax burden will increase in 1992.

4. IMPACT ON TYPICAL HOUSEHOLDS

The measures announced today represent a lighter tax burden for low and medium-income households.

A couple with two children will see its disposable income increase by $392 if its work income is $25 000, and by $207 if its income is $40 000. Such a couple will gain up to an income of $50 000.

The measures will increase the disposable income of single persons living alone earning an income of up to $21 000.

REDUCTION IN TAX BURDEN AND INCREASE IN DISPOSABLE INCOME RESULTING FROM REFORM OF CONSUMPTION TAXES
(in millions of dollars)

	1992 taxation year
Reduction in consumption taxes	239
Improvement in fairness of taxation system	
Refundable sales tax credit	151
Compensation for households benefiting from income security with regard to sales tax	54
4.5 % indexation of taxation system and family allowances	304
Indexation of EI and PWA programs	72
Subtotal	581
Less increase in business taxes	– 297
Gain for taxpayers in the private sector	523

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Source : Monique Trudel
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Press release

RELEASE No. 3
EMBARGO : August 30, 1990, 11 a.m.

A FAIRER TAXATION SYSTEM

(Québec City, August 30, 1990) -- "We will have succeeded in carrying out a reform beneficial to the economy in general and to all taxpayers while improving the fairness of the taxation system as a whole and continuing to favour families." -- Gérard D. Levesque.

1. ELIMINATION OF MANY EXEMPTIONS AND REDUCTION OF THE RATE TO 7 %

The Minister first pointed out that the households with the highest incomes derive the most benefits, which the government wanted to grant households with the lowest incomes through exemptions for various goods and services. Whereas maintaining, in 1991, the exemption for clothing and shoes would cost the Québec government $540 000 000, it would only cost it $87 000 000 to completely protect households with incomes under $31 500, i.e. 40 % of all households.

Since sales tax exemptions are of most benefit to the wealthiest households and are a needlessly costly way to protect low-income households, Mr. Levesque announced their elimination. He said he was pleased that the broadening of the tax base would make it possible to reduce the tax rate on other goods and services to 7 %, which will benefit all taxpayers.

2. IMPLEMENTATION OF A REFUNDABLE SALES TAX CREDIT

The Minister of Finance indicated that a new refundable sales tax credit will offset the additional amount of sales tax attributable to the reform for low and medium-income households.

The credit, which will come into force in the 1991 taxation year, will have the following structure :

Maximum amount: $90 for an adult ;
$50 for taxpayers entitled to the tax credit for a person living alone ;
$25 for each dependent child ;
$15 more for the first dependent child of a single-parent family.

The maximum value of the credit will be :
$230 for a couple with two children ;
$140 for a single person living alone ;
$180 for a single-parent family with one child.

The maximum amount of the credit will be reduced according to the family income on the basis of which the property tax refund is calculated.

To ensure that the neediest families are protected from the very first day of application of the consumption tax reform in Québec, the compensation will be paid to beneficiaries of income security programs in the form of additional monthly benefits rather than refundable tax credits. In this way, amounts equal to the value of the tax credit will be added to the EI, PWA and Financial Support program scales. In addition, the ministère du Revenu will prepay the refundable tax credit to people 65 or older with low incomes.

These specific forms of compensation for low-income households represent $205 000 000 over a full year, i.e. $151 000 000 in tax credits and $54 000 000 in equivalent compensation for beneficiaries of income security programs.

3. 4.5 % INDEXATION OF RECOGNIZED ESSENTIAL NEEDS IN 1992

To take into account the loss of purchasing power resulting from inflation in general, and not only movements in prices attributable to the reform of consumption taxes, the Minister of Finance announced the immediate indexation of income tax credits, family allowances and income security scales for 1992.

The 4.5 % indexation of income tax credits and EI and PWA program scales represents a cost to the government of $376 000 000 for 1992.

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Source: Monique Trudel
Office of the Minister of Finance
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Press release

RELEASE No. 4
EMBARGO: August 30, 1990, 11 a.m.

Simplification and reduction of administration costs

(Québec City, August 30, 1990) — The Minister of Finance, Mr. Gérard D. Levesque, stated the objective of his government was to reduce the chances of administrative confusion concerning consumption taxes and thus substantially reduce the inherent costs of collecting them.

Simplified compliance through harmonized tax bases

Mr. Levesque noted that for merchants, the lack of harmonization between the GST and Québec's sales tax would mean that a host of goods and services would not have the same status under the federal and Québec systems. Therefore, in the absence of intervention by Québec, merchants would have to know that, for instance, potato chips are subject to the GST but not to Québec's sales tax, sugar-coated popcorn is taxed under both systems and certain juices are subject to Québec's sales tax but exempt from the GST.

Harmonization of the two tax systems at the retail level will significantly facilitate both consumers' and merchants' understanding and simplify the role of the latter as far as recording transactions and taxes at the cash register is concerned.

Reduced administration costs

The Minister noted that several groups and associations had asked the Québec government to harmonize the Québec consumption tax system and to negotiate a unified administration of the two taxes with the federal government. The presence of two unharmonized sales tax systems would increase the costs businesses would have to absorb as government agents in the collection of the taxes.

The juxtaposition of two systems would mean that agents would have to understand and apply two different tax systems, involving:

- the identification of the tax status of goods and services supplied;
- two different tax remittances at two different times covering different periods;
- overlapping of the procedures to determine the tax system applicable to a new product;
- the possibility of having two teams of auditors successively validating the information provided with remittances.

This complexity in complying with the taxes would force many businesses to acquire new, more sophisticated equipment and to seek outside expertise in order to carry out their role as agents, leading to substantial unproductive costs.

Once full harmonization is achieved in 1992, the costs of collecting sales taxes in Québec will be held to a minimum since the two systems will generally apply the same tax treatment to goods and services as well as the same administrative rules.

Mr. Levesque expressed his satisfaction that taxpayers, agents and governments, thanks to the measures announced today, will be spared the problems inherent in the duplicate administration of two tax systems.

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Source: **Monique Trudel**
Office of the Minister of Finance
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Press release

RELEASE No. 5
EMBARGO : August 30, 1990, 11 a.m.

A REFORM THAT STRENGTHENS QUÉBEC'S INDUSTRIAL STRUCTURE

(Québec City, August 30, 1990) — The Minister of Finance, Mr. Gérard D. Levesque, emphasized that the reform of consumption taxes is in keeping with the economic policies that the government has pursued since December 1985 to strengthen the structure of Québec's economy, to enhance the productivity of Québec's workers, to encourage businesses to invest and to bring about a general improvement in the competitiveness of the province.

The Minister indicated that the reform of the Québec sales tax will, gradually over the coming years, mean an improvement in the performance of the Québec economy. An estimated 0.5% increase in production and a 0.3% increase in employment will result.

1. IMPROVEMENT IN THE COMPETITIVENESS OF QUÉBEC'S BUSINESSES

In the wake of the measures contained in the reform, businesses will no longer pay sales tax on the purchases they make that are related to a commercial activity, which will result in a reduction of their production costs. It is estimated that the tax exemption of inputs will reduce by about 1% the average cost of production of Québec's exported products and the average cost of Québec products subject to foreign competition. This will strengthen the ability of Québec's businesses to compete.

2. MEASURES TO ENCOURAGE INVESTMENT

A large proportion of the purchases of such capital goods as trucks, automobiles, office furniture, computers, telecommunications equipment and building materials is now subject to a 9% sales tax. With the elimination of the tax on these products, the cost of acquiring capital goods should drop by 3.5%. This reduction will encourage investment and increase capital stock in the long term, which will mean a rise in the volume of Québec production and in the productivity of Québec workers.

3. MOST INDUSTRIAL SECTORS WILL BENEFIT FROM THE MEASURES

The application of a lower sales tax rate to a broader range of products will reduce the price disparities caused by taxation. For example, prices will increase for the categories of goods and services that now benefit from exemptions, such as clothing, shoes and furniture. On the other hand, prices for products now taxed, such as electricity and automobiles, will decrease. Residential investment will also experience a price rise. This increase will, however, be limited in the case of new construction owing to the 2.5% tax refund granted for new housing.

Among the industries that will be affected by consumer price increases, the furniture industry should benefit from the reform because of increased demand on the part of businesses. In regard to clothing and shoes, the losses resulting from lesser demand by households should be mitigated, for the most part, by the refundable sales tax credit and by gains in competitiveness through other aspects of the reform, such as the reduction in the cost of common inputs.

The gains in production and employment will be shared by most industrial sectors. As a rule, they will be greater for products whose prices decrease and for industries, a significant proportion of the production of which is intended for external trade or the supply of inputs to business.

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Source: **Monique Trudel**
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Press release

RELEASE No. 6
EMBARGO : August 30, 1990, 11 a.m.

Federal-provincial agreement on the administration of the GST

(Québec City, August 30, 1990) — The Minister of Finance, Mr. Gérard D. Levesque, indicated that an agreement had been negotiated with the federal government to ensure a decisive role for Québec in the evolution of consumption taxes as well as to reduce administrative confusion and the costs linked to the collection of Québec's consumption taxes.

This marks the first time ever that the federal government has agreed to have a province administer these taxes. This initiative not only speaks highly of the management capabilities of the ministère du Revenu du Québec, but it also ensures that Québec will play a decisive role in the evolution of consumption taxes within the province.

The federal-provincial agreement concerning the transfer to Québec of the administration of the GST and the harmonization of Québec's consumption tax system with the GST encompasses the following elements, among others.

Transfer of the administration of the GST on January 1, 1992

The federal government has agreed to delegate the administration of the GST on Québec territory to Québec beginning on January 1, 1992.

On that date, the federal government will transfer to Québec all the equipment, premises and files required for this purpose. Québec has agreed, in administering the federal GST, to comply with the standards aimed at ensuring uniform administration of the GST across Canada.

Transition period : 1991

From now until the transfer of the administration of the tax, Québec will take the necessary steps to ensure an orderly transfer on January 1, 1992. To facilitate the process, the federal government will cooperate with Québec and limit as much as possible the hiring of permanent staff in Québec by Revenue Canada by favouring employees loaned by Revenu Québec.

Guarantees for Revenue Canada employees

Québec has agreed to offer equivalent employment at an equivalent salary to the permanent employees of Revenue Canada involved in managing the GST in Québec. The federal government will pay the costs of transferring this personnel, including the costs of pension plans.

Financial compensation by the federal government

Canada and Québec will share equally the costs of the unified administration of the GST and the Québec sales tax. The federal share will be increased for the three years from 1992 to 1994 in order to provide Québec with $20 000 000 to cover the costs of implementing the new collection system.

Substantial harmonization of the Québec sales tax

Québec has agreed to lay before the National Assembly, before December 31, 1991, a bill to modify the base for its consumption taxes so as to make it substantially the same as that of the GST. Harmonization in regard to movable goods will take effect on January 1, 1991 and in regard to real property and services on or before January 1, 1992. Québec will, however, remain responsible for the policy and administration of its taxation system. It has nevertheless recognized, jointly with the federal government, the importance of maintaining coherent tax bases.

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Source: **Monique Trudel**
Office of the Minister of Finance
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Québec

Gouvernement du Québec
Ministère des Finances

Consumption Tax Reform

Summary Table

	CURRENT SITUATION : 1990	TRANSITION PERIOD : 1991	FULL REFORM : 1992
1. ADMINISTRATION OF THE GST	♦ Non applicable	♦ Federal government temporarily administers the GST in Québec	♦ Québec assumes the administration on the GST within its borders
2. HARMONIZATION OF CONSUMPTION TAXES WITH THE GST			
Retail sales tax	♦ Current rate : 9 %	♦ Rate reduced to 8 % ♦ Broadening to all movable goods ♦ The tax will not apply to services currently exempt or to real property	♦ Rate reduced to 7 % ♦ Broadening to all goods and services subject to the GST
Tax on telecommunications	♦ Current rate : 9 %	♦ Rate reduced to 8 %	♦ Rate reduced to 7 %
Meals and hotels tax	♦ Current rate : 10 %	♦ Rate reduced to 8 %	♦ Rate reduced to 7 %
Special sectors **Residential construction**	♦ Taxation of building materials and of inputs used to produce them	♦ Taxation of building materials and of inputs used to produce them	♦ The 7 % tax will apply to new houses ♦ Refund of 2.5 percentage points to limit price increase
3. FAIRER TAX SYSTEM			
Protection of purchasing power of low-income households			
Against the impact of changes to consumption taxes	♦ Non applicable	♦ Immediate implementation of a refundable tax credit and equivalent compensation for households receiving benefits under the Financial Support, EI and PWA programs e.g. : $230 for a couple with two children	♦ Refundable tax credit and equivalent compensation for households receiving benefits under the Financial Support, EI and PWA programs e.g. : $230 for a couple with two children
Against inflation not related to changes in taxes	♦ Indexation of 4.9 % announced in the 1989-1990 Budget Speech	♦ Indexation of 4.8 % announced in the 1990-1991 Budget Speech	♦ 4,5 % indexation of tax system, family allowances and income security programs

Québec

Gouvernement du Québec
Ministère des Finances

Operation of the Québec sales tax at 7% when fully implemented
Furniture manufacturing and marketing (in dollars)

Commercial stage	Purchases	Tax on purchases	Refunded tax
Logger	75	5.25	5.25
Sawmill			
– purchases of components	100	0	0
– other purchases of goods	50	3.50	3.50
Manufacturer			
– purchases of components	200	0	0
– other purchases of goods	50	3.50	3.50
Wholesaler			
– purchase of furniture for resale	350	0	0
– other purchases of goods and services	50	3.50	3.50
Retailer			
– purchase of furniture for resale	425	0	0
– other purchases of goods and services	70	4.90	4.90
Consumer (purchase of furniture)	550	38.50	0
Total tax charged		59.15	
Total tax refunded			20.65
Net tax charge = tax paid by consumer			38.50

Québec

Gouvernement du Québec
Ministère des Finances

Reduction in tax burden and increase in disposable income resulting from reform of consumption taxes (in millions of dollars)

		1992 taxation year
Reduction in consumption taxes		**239**
Improvement in fairness of taxation system		
☐ Refundable sales tax credit	151	
☐ Compensation for households benefiting from income security with regard to sales tax	54	
☐ 4.5% indexation of taxation system and family allowances	304	
☐ Indexation of EI and PWA programs	72	
Subtotal		**581**
Less increase in business taxes		**– 297**
Gain for taxpayers		**523**

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Impact of reform of consumption taxes

(when fully implemented, in 1992 dollars)

Household work income	Couple with one child under 6	Couple with two children under 6		Couple with three children under 6	Single-parent family with one child under 6	Couple under 65 with no children	Single person under 65 living alone
	One work income	One work income	Two work incomes	One work income		One work income	
0	674	759	793	804	496	565	344
5 000	677	762	856	835	579	583	397
10 000	669	781	904	826	640	583	154
15 000	528	616	959	660	598	159	104
20 000	533	604	1 006	648	422	47	– 5
25 000	382	392	823	245	263	18	1
30 000	279	366	812	456	157	9	– 13
35 000	188	262	409	352	88	—	– 113
40 000	171	207	529	247	78	– 40	– 147
50 000	122	147	362	188	– 70	– 59	– 174
75 000	– 83	– 61	92	– 26	– 141	– 102	– 229

Note 1 : The impact includes all changes to consumption taxes with the exception of tax adjustments applying to the tobacco and alcoholic beverages taxation system, and measures aimed at improving the fairness of the taxation system.

Note 2 : For the couple with two work incomes, one of the spouses earns 60 % of the household income and the other, 40 %.

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Impact of reform of consumption taxes

COUPLE WITH TWO CHILDREN UNDER 6 YEARS OF AGE
One work income (reform fully implemented, in 1992 dollars)

Retail sales tax, telecommunications tax and tax on meals and hotels replaced by a broader sales tax at 7%

Household work income	Additional sales tax	Measures to protect purchasing power			Total impact
		Refundable tax credit[1]	Other measures	Indexation of essential needs	
0	– 96	230	—	625	759
5 000	– 110	230	—	641	762
10 000	– 118	230	—	699	781
15 000	– 125	230	—	510	616
20 000	– 137	230	—	510	604
25 000	– 147	230	—	309	392
30 000	– 155	144	—	377	366
35 000	– 162	47	—	377	262
40 000	– 170	—	—	377	207
45 000	– 178	—	—	377	198
50 000	– 187	—	—	334	147
60 000	– 204	—	—	212	8
75 000	– 230	—	—	169	– 61

1 This compensation will take the form of additional benefits for households that are income security beneficiaries.

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Protection of purchasing power of low-income households in 1992

Sources of loss of purchasing power	Compensatory measures
Inflation during 1991 not attributable to the Québec and federal consumption tax reforms	4.5% indexation of recognized essential needs
Application of the federal GST (impact of 1.2% on prices)	Refundable federal tax credit for GST
Reform of the Québec sales tax: 7% rate (impact of 0.4% on prices)	Refundable Québec tax credit and compensation for households receiving income security

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Impact of the reform on the price of an average new house by region

	Average price	Impact after refund		Change in monthly mortgage payments
	$	$	%	$
Chicoutimi-Jonquière	78 886	252	0.3	1.95
Drummondville	69 054	221	0.3	1.71
Granby	74 868	240	0.3	1.85
Hull	105 205	612	0.6	4.73
Montréal	131 517	1 108	0.8	8.58
Québec	123 302	717	0.6	5.55
Saint-Jean-sur-Richelieu	108 000	628	0.6	4.86
Shawinigan	63 561	215	0.3	1.66
Sherbrooke	86 006	275	0.3	2.13
Trois-Rivières	77 483	248	0.3	1.92

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Who benefits from the sales tax exemption granted for clothing and shoes ? (valued at 9% in 1991)

Quintile	Income group	Clothing and shoes	
	in dollars	in millions of dollars	%
1st group - 20% of households	0 - 17 500	27	5
2nd group - 20% of households	17 500 - 31 500	60	11
3rd group - 20% of households	31 500 - 48 200	91	17
4th group - 20% of households	48 200 - 69 000	141	26
5th group - 20% of households	69 000 or more	221	41
Total		**540**	**100**

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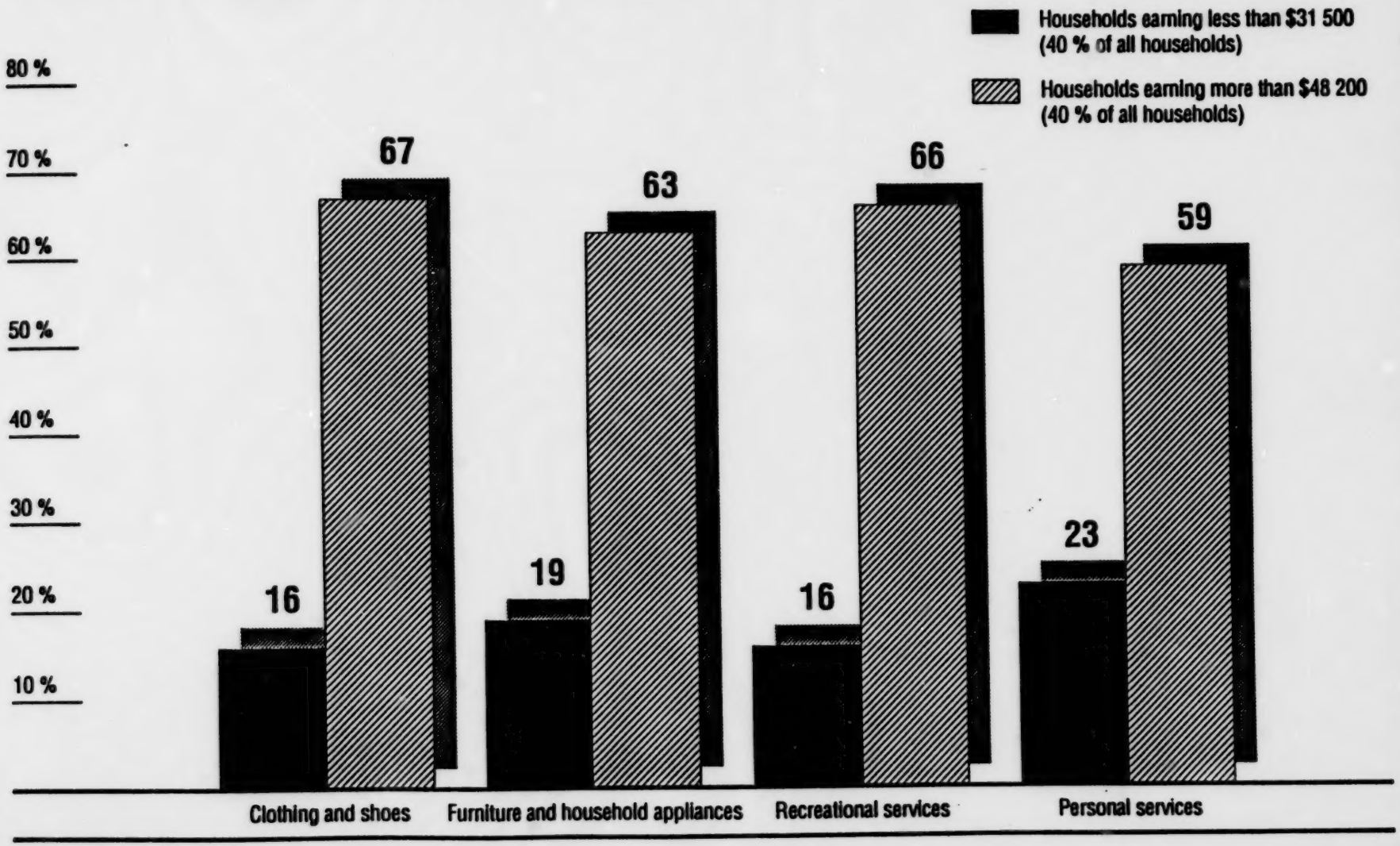
Who benefits from the current sales tax exemption for certain goods and services? (in percentage of benefit)



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Examples of items that will become taxable in 1991 and 1992

Movable property that will become taxable in 1991 (8%)

- ☐ Furniture
- ☐ Kitchen ranges and refrigerators
- ☐ Household linen (tablecloths, serviettes, etc.)
- ☐ Clothing and shoes
- ☐ Books, newspapers, etc.
- ☐ School supplies
- ☐ Soap and other cleaning products
- ☐ Firewood
- ☐ Ice
- ☐ Tampons and sanitary napkins
- ☐ Child restraint systems for use in motor vehicles
- ☐ Snack foods, potato chips, etc
- ☐ Meals costing $3.25 or less

Goods and services that will become taxable in 1992 (7%)

- ☐ Real property
- ☐ Transportation services :

  plane, train, taxi, etc., bus with the exception of public municipal transportation

- ☐ Personal services :

  beauty care, hairstyling, dry cleaning, etc.

- ☐ Recreational and cultural services :

  skiing, physical fitness, theatre tickets, etc.

- ☐ Repairs to household appliances, motor vehicles, etc.
- ☐ Hotel and motel rooms, etc.

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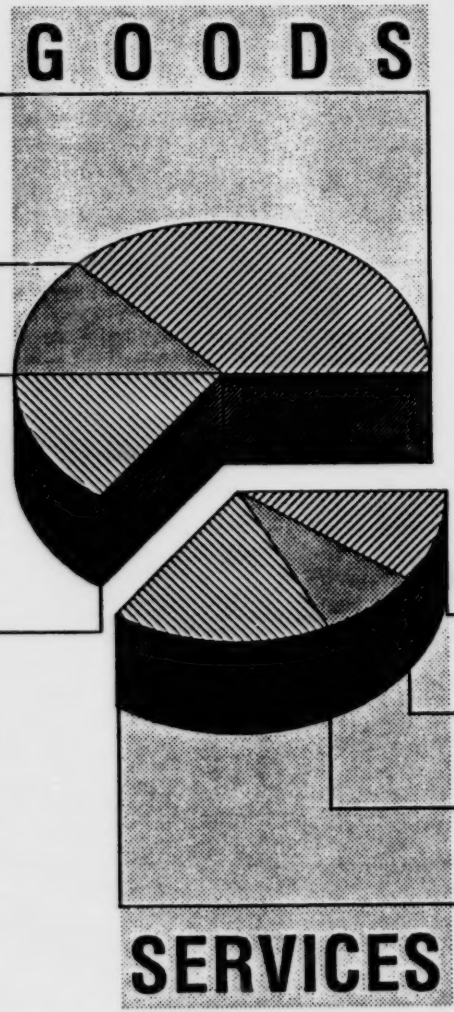
Impact of reform on proportion of taxable goods and services in household consumption in 1992 (in percentage)



	Main elements		
Goods now taxable (37 %)	Vehicles and parts Electrical appliances Recreational and sports equipment Electricity and heating fuels Fuels Tobacco and alcohol Tools and equipment		
Broadening of range of goods (13 %)	Clothing and shoes Furniture Stoves and refrigerators Soap Textiles Books and periodicals School supplies Newspapers		
Goods remaining exempt (15 %)	Food Prescription drugs Certain medical devices		
	Main elements		
Services now taxable (10 %)	Telephone and cable Restaurant services	Certain insurance	
Broadening of range of services (8 %)	Repairs Recreation and culture	Personal services Hotel rooms Transportation	
Services remaining exempt (17 %)	Health services Child care	Educational services Other financial services Municipal public transportation	

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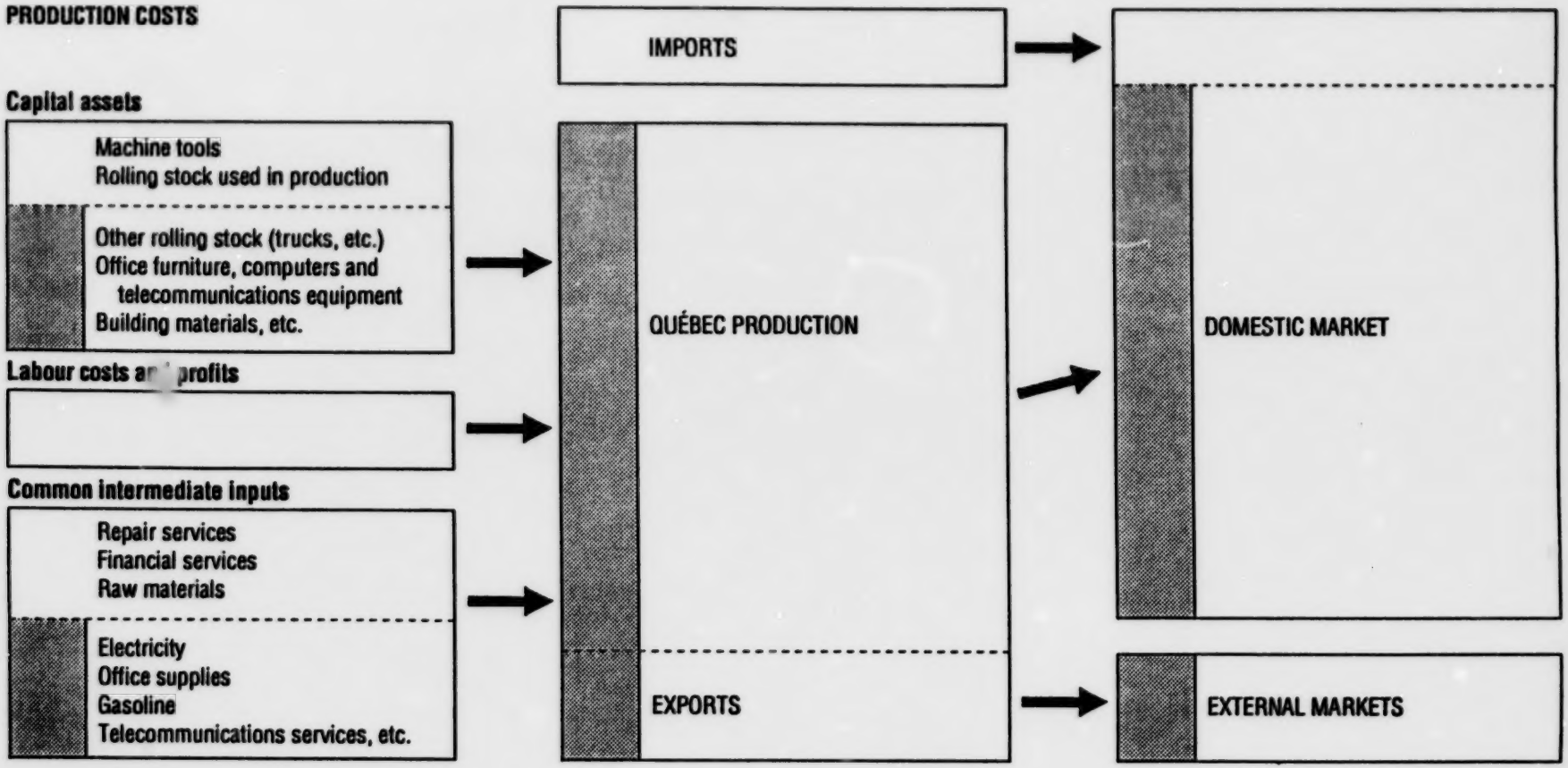
Impact of existing taxation of purchases by businesses on Québec production costs



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Rate of employers' contribution to the Health Services Fund, tax on capital and corporate income tax

	Until December 31, 1991[1] %	Starting January 1, 1992 %
Employers' contribution to the Health Services Fund	3.45	3.75
Tax on capital		
☐ General rate	0.52	0.56
☐ Banks, and trust and loan companies	1.04	1.12
Corporate income tax		
☐ Active business income		
— Eligible for the SBD[2]	3.45	3.75
— Other income	6.33	6.90
☐ Non-active business income	14.95	16.25

1 Effective rounded rates taking into account the existing 15 % surtax.
2 Small business deduction.

Appendix to the Minister's Statement concerning the Administration of the GST and the Reform of Consumption Taxes in Québec

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ERRATA

Please note the following corrections :

— Appendix to the Minister's Statement

- Line 2 of paragraph 2 on page 44 :

  the words "earning less than $30 000"
  should read "earning less than $50 000".

— Press releases

- At the end of paragraph 3 on page 2 of Release No. 2 :

  the words "an income of up to $21 000"
  should read "an income of up to $20 000".

Appendix to the Minister's Statement concerning the Administration of the GST and the Reform of Consumption Taxes in Québec

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A) General summary

Introduction

During the Budget Speech given before the National Assembly on April 26, the Minister of Finance referred to major difficulties that would be encountered in applying the federal Goods and Services Tax (GST) as of 1991. At that time, Mr. Gérard D. Levesque stated his intention of dealing with the problem as soon as possible, in order to determine the administrative framework in which Québec firms would be operating as of next January 1.

Immediate action must be taken to eliminate any uncertainty felt by firms or consumers. The decisions announced today are of paramount importance since they will protect the interests of Québec by preserving its decisive role in determining and managing fiscal policy on its territory, enabling Québec firms to better meet the challenge of a more open and competitive world economy and creating a fairer tax system.

1. Problems to be solved

As mentioned earlier, the federal government's proposed GST is scheduled to come into force January 1, 1991. Initially, this proposal raised serious problems, which Québec and the other provinces vigorously denounced. Québec's Minister of Finance and his colleagues in the other provinces protested strongly and the proposal was substantially improved. For instance, the tax rate was reduced from 9 percent to 7 percent and the financial situation of provincial institutions such as municipalities, hospitals, school administrations, colleges and universities has been better protected. These, and other improvements, particularly as regards provincial lotteries, largely reduced the impact of the GST on provincial finances. However, the complex administration underlying the proposed GST remained a problem despite certain efforts made by the federal government in this area.

The federal proposal consists in replacing the current manufacturers' sales tax by a much more general tax. There are some 25 000 firms in Québec subject to the manufacturers' sales tax. The new tax would bring this number to over 400 000. In fact, the point of the GST is to tax goods and services in all the stages preceding and including the final sale, which creates many more points of collection.

By entering the retail sales tax field in this way, the federal government would be duplicating existing provincial systems, making the taxpayers' role much more complex. Consumers would have to know, understand and comply with two completely different tax systems. Businesses would have to understand and comply with two systems as well. They would have to work with two different systems of administration, make tax payments at different dates and set up a double system for collecting taxes, not to mention the problems of management, accounting and verification that would involve. This would entail major investments in human and financial resources for business. In addition, government would incur the costs associated with two parallel systems of tax administration, costs which, in the last analysis, would be borne by all taxpayers.

A large number of business and consumer groups pointed out to the government that the proposal would entail useless expenditure wholly uncalled for in a context characterized by difficult government finances and heightened international competition.

In order to protect the interests of the taxpayer and to promote Québec's economy in general, the government took steps to persuade the federal government to eliminate the administrative confusion in this regard and reduce the costs.

2. Unified administration for federal and Québec taxes

An arrangement has been negotiated with the federal government that should substantially simplify the administration of consumption taxes in Québec. This arrangement is based on the administration by Québec of the federal GST. The negotiations in this respect turned out to be more complex than expected, which is why nothing could be announced in the last Budget Speech.

As of January 1, 1992, Québec's ministère du Revenu is scheduled to administer the GST in Québec for the federal government, under a memorandum of agreement between the two governments. The year 1991 will serve as a transition period for the federal government to break in its tax collection system and adjust it if necessary. At the end of that year, the administration of the tax will be transferred to the ministère du Revenu du Québec, with the staff and equipment required.

In fact, as early as possible in the fall of 1990, the ministère du Revenu will hire the additional staff required to administer the unified provincial and federal systems. This staff could be loaned to Revenue Canada until the entire administration is transferred on January 1, 1992. Employees of Revenue Canada administering the GST in Québec on December 31, 1991 will be guaranteed equivalent employment with the ministère du Revenu as soon as the administration is transferred. Particular attention was paid to this point to ensure that the transfer would in no way prejudice federal employees then in place. The Chairman of the Conseil du trésor du Québec and his federal counterpart will clarify the specific terms of this transfer of personnel very shortly.

The federal and Québec governments will share the costs of this unified administration of the GST and the Québec sales tax equally. Both will thus make major savings. After three years, at least 500 person-years, or about $35 000 000, will be saved annually.

This transfer of the administration of the GST is an unprecedented delegation of federal power. It will enable Québec to develop and maintain an expertise in the management of a modern tax which has been adopted by most of the member countries of the OECD. Québec will thus be in a position to play an active role in defining tax management policy and to better grasp the fiscal issues concerning it.

More important still, this agreement will simplify the application of consumption taxes in Québec. Businesses will have only one administrative system to deal with and the methods of tax collection will be similar. This constitutes an essential first step towards simplification.

3. Harmonizing the federal and Québec systems

The next step, inextricably linked to the first if the taxation system is really to be simplified and unified administration carried to its logical conclusion, is to reform the Québec taxation system, harmonizing it with the federal system insofar as is possible and desirable. As of January 1, 1992, a new sales tax system will be set up, with a broader base, making it possible to reduce Québec's consumption tax rate to 7 percent. This system will replace the current 9 percent sales tax, the 10 percent tax on meals and the 9 percent tax on telecommunications.

The new sales tax will also apply to those products currently subject to a specific tax, such as fuel and tobacco. However, the specific tax on these products will generally be reduced, so that the tax charge on fuel will remain constant in 1991 and 1992 and the increase in the tobacco tax as a whole in 1992 will be limited to 1 cent per cigarette. The tax on a litre of alcoholic beverage introduced in the last Budget Speech will be adjusted on January 1, 1991, in order to maintain the tax charge on these products, and again on January 1, 1992, in order to generate an additional 1.4 cents per bottle of beer and 6 cents per bottle of wine. These changes are described in greater detail in Section B of this document, entitled "Detailed Description".

Barring a few exceptions, the consumer will pay the new sales tax on any product or service subject to the GST. The exceptions refer mainly to goods bought exclusively for resale, leasing or re-leasing and purchases of components of such goods intended for sale.

Unlike the current sales tax, which is applied to many purchases made by business, thus rendering Québec products less competitive both on domestic and on international markets, the new tax will be applied only to final consumer sales. Like the GST, it will include a refund mechanism for taxes firms pay on their purchases. In fact, firms will be able to apply this refund directly to the amount of the taxes they collect on their own sales and must remit to the government.

The new sales tax will have a broader base than the current sales tax since it will be aligned with the GST. Generally, it will affect all movable goods and real property as well as the services covered by the GST. Similarly, it will exclude certain essential goods such as food, prescription drugs, various medical devices, residential rents, health services and educational services. Charitable and non-profit organizations, on the other hand, will be entitled to a 50 percent tax refund on purchases, as specified in the federal proposal. Public institutions such as hospitals, universities, colleges, schools administrations and municipalities will be entitled to a partial refund of the tax on their purchases in order to maintain their tax burden at a constant level. The terms of this refund will be announced at a later date.

With regard to financial institutions, most of the services they supply will not be taxable. As will be the case under the GST, only a few specific financial services offered by financial institutions will be taxed. Obviously, the federal GST system cannot be integrally applied to the provincial context in this respect. Subjecting all the goods and services purchased by financial institutions to the Québec sales tax, with no refund possible, could cause a transfer of activities to the other provinces. The government will therefore give this matter serious consideration before definitively announcing how the goods and services purchased by these institutions will be dealt with under the new general sales tax system as of January 1992. One of the government's objectives will be to maintain the consumption tax burden borne by these firms at a relatively constant level. In this context, the current tax applicable to insurance premiums will be maintained.

The question of access to home ownership demands a number of special measures. The current 9 percent sales tax is applied to building materials, to certain inputs used to produce them and to capital goods used in construction. On the average, this tax represents 3.8 percent of the selling price of new property. In this context, replacing the current tax by a 7 percent tax on the full price of a new house could restrict the capacity of households to acquire residential property.

To avoid this, a 2.5 percent sales tax refund on residences worth up to $150 000 will be introduced. A partial refund will also be granted for residences costing between $150 000 and $175 000.

This refund will affect more than 90 percent of new houses and will cost about $73 000 000 in 1992.

It will largely limit the impact of the reform on the price of an average house. The impact will actually depend on the value of the land included in the price of the house. In the Montréal region, where land is more expensive than anywhere else in Québec, the price of a typical house will rise by only 0.8 percent or so, for an increase of less than $9 a month in mortgage payments. In other urban areas, where land is much less expensive, the price of the average house will increase by only 0.3 percent, which is less than $2 a month in mortgage payments.

Other elements of the new system will be described in the months to come. To this end, the government plans to table a technical document in the fall detailing the terms under which the system will be applied in 1992. A bill will then be presented to the National Assembly, in the spring of 1991.

The whole reorganization of consumption taxes will result in a $239 000 000 reduction in the tax burden of economic agents in the private sector in 1992.

4. A fairer tax system

The government is concerned about the important matter of equity in the tax system. Despite the decrease from 9 percent to 7 percent in tax rates and even 10 percent to 7 percent in the tax on meals and hotels, the reform of consumption taxes in Québec will mean an increase in the tax burden of many Québec taxpayers, depending on the amount and the type of purchases a household makes.

The Québec government has not only sought to simplify the system introduced with the GST; it has also sought to create a fairer tax system overall, by maintaining and even improving the situation of low and middle-income households.

In the normal course of events, the reform of the federal and Québec consumption taxes would have cut into the purchasing power of Québec households, owing to the impact of the GST on prices, the impact of the Québec reform on prices, amounting to 0.4 percent, and the basic inflation of the economy.

The federal GST tax credit will more than compensate low-income households for the 1.2 percent increase in prices that should result from the GST in 1991.

A major mechanism, i.e. a refundable sales tax credit, will be introduced in Québec so that low-income taxpayers will not see their tax burden increase as a result of the provincial reform.

This new refundable sales tax credit will be $90 per adult and $25 per dependent child. In order to take into account the particular situation of certain households, an additional $15 is provided for the first child of a single-parent family and an additional $50 for taxpayers entitled to the credit for persons living alone. An unmarried person living alone will thus receive a maximum credit of $140; a single-parent family will receive $180 and a couple with two children will receive $230.

The amount of the maximum credit will be reduced on the basis of family income above the cut-off level used for the property tax refund. Since a transitional sales tax system will be in force in 1991, this tax credit will be applicable to the 1991 taxation year. Finally, to ensure that the taxpayers who need it most receive their refund rapidly, beneficiaries under the PWA, EI and financial support programs will receive compensation equivalent to the tax credit every month as of January 1, 1991. Low-income elderly persons will also be protected by advance payment of the sales tax credit.

As an illustration of the impact of this tax credit, consider the example of a couple with two children where one of the parents works outside the home, earning $25 000 a year. The average net increase in taxes for such a household would be $147 a year. However, the government will be paying a $230 tax credit. In addition, the 4.5 percent indexation of essential needs will protect the family's purchasing power by increasing its disposable income by $309. In all, the measures announced will result in a gain of $392 for such a family.

Over a full year, the government will pay out $205 000 000 in specific compensation for low-income households: $151 000 000 in refundable tax credits and $54 000 000 in equivalent compensation for beneficiaries under income security programs.

Maintaining the real income of households also means offsetting not only price changes due to the reform of consumption taxes, but also any loss of purchasing power resulting from inflation in general. During the two years that followed the tax reform announced in May 1988, the government compensated low-income households for the loss in purchasing power as a result of inflation: income tax credits were indexed as well as income security scales.

The same will be done in 1992. Income tax credits and EI and PWA scales applicable to people able to work will be indexed by 4.5 percent. The scales for the financial support program, for people unable to work, will be automatically indexed as provided for by law. This 4.5 percent indexation will cost the government $376 000 000 in 1992.

These measures will fully protect the purchasing power of low and middle-income households. In fact, their purchasing power will increase. For instance, with indexation, a household consisting of two adults and two children, with one income, will benefit from the measures announced today, up to an income level of about $50 000. A single-parent family with one child will benefit up to an income level of some $47 000, while single people 65 or over will benefit up to an income of around $21 000. A reform has thus been introduced that will boost the economy in general and benefit taxpayers as a whole while creating a fairer tax system overall and once again providing added support for families.

5. The transitional system

Québec's new sales tax will come into force on January 1, 1992, at the same time as the unified administration of the federal GST and the Québec tax. In 1991, the federal GST will be in force, but will be administered on a provisional basis by Revenue Canada.

The year 1991 will thus be a transition year. Since our objective is to simplify the administration of consumption taxes, the government has endeavoured to ensure maximum harmonization of the two systems, at least in the retail trade, beginning on January 1, 1991. Movable goods sold retail and subject to the GST will therefore also be subject to the Québec sales tax as of January 1, 1991. This means that the tax base will be broadened; as a result, it will be possible to lower the sales tax from 9 percent to 8 percent and the tax on meals and hotels from 10 percent to 8 percent.

No tax refunds will be paid to firms for their purchases during the transition year, nor to charitable or non-profit organizations, or public agencies entitled to refunds under the GST system. Furthermore, the supply of services and real property currently exempt will not be taxed until the refund system is set up, on January 1, 1992.

6. Economic and financial impact

The new sales tax system will yield less than the current system. The decreased rates and the broader tax base will result in a shortfall of $239 000 000 for the government in 1992. Compensatory measures in the form of the new sales tax credit, equivalent compensation for the beneficiaries of income security programs, and the 4.5 percent indexation applied to the taxation system and to transfers to individuals will represent a net additional cost of $581 000 000 for a total cost of $820 000 000 in 1992.

In order to maintain the government's financial framework and in view of the favourable impact the reform will have on the competitive position of Québec firms, it would appear appropriate and non-prejudicial to raise corporate income taxes. Corporate taxes will therefore be increased as of January 1, 1992, at the same time as the current 15 percent surtax is abolished and integrated into basic taxation rates. The rate of contribution of employers to the Health Services Fund and income tax rates for small businesses will therefore be raised from 3.45 percent, including the surtax, to 3.75 percent. The corporate tax rate on the income of large businesses and non-active businesses will increase from 6.33 percent and 14.95 percent to 6.9 percent and 16.25 percent respectively. Finally, the general rate for the tax on capital and the rate applicable to certain financial institutions will go from 0.52 percent and 1.04 percent to 0.56 percent and 1.12 percent respectively. This measure will increase the tax burden of businesses by $297 000 000 for a full year.

In all, the measures announced today will reduce the tax burden of the private sector by $523 000 000 over the full year of 1992. The impact on the financial framework will depend on when the measures are implemented and how long it takes before their effect on the government's financial situation is felt. This impact amounts to $77 000 000 for 1990-1991 and represents an overall shortfall of $19 000 000 for the three years 1990-1991 to 1992-1993. These amounts were already calculated in the budget tabled on April 26, so that the revenue and expenditure and the balance of transactions announced at that time need not be revised. As was pointed out initially, the unexpected complexity of the discussions surrounding the transfer of the administration of the GST to Québec delayed today's announcement although the general outcome of the discussions was not really in question.

Despite the rise in their taxes, Québec firms will undoubtedly benefit from the reform of consumption taxes. The savings resulting from the simplified application of the consumption tax systems could alone cancel out a good part of the increase in the rates. The reform will also result in a stronger economy. It will enable businesses to reduce their production costs since it eliminates to a large extent the sales taxes levied on their purchases. Québec products will become more competitive both on domestic and on international markets, and non-residential investment will be stimulated. Employment will improve by about 0.3 percent in the long term and the real domestic product will rise 0.5 percent, contributing to the welfare of Quebecers and improving Québec's financial situation.

Conclusion

Given the federal government's determination to implement the GST in 1991, the government has decided not to wait for the complex problems with which business and consumers would be faced, but to take steps to simplify the administration of consumption taxes in Québec, at the same time obtaining favourable amendments to the GST. Thus, once the tax reform announced today has been fully implemented, the two systems will generally give the same tax treatment to goods and services and use the same administrative rules. For instance, businesses will apply the two taxes at the same time, have the same reporting periods, and make tax payments on the same dates. As a rule, they will even be able to tax the same goods in the same way. Moreover, as a result of the unified administration of the two taxes by Québec, firms will have only one government to deal with, which will help reduce the cost of applying the systems both for business and for government, with all the beneficial effects that can have for the consumer and the taxpayer.

This reform will not only make it possible to simplify the taxation system, it will also help improve it, adapting it to the demands of an increasingly competitive international economy. Also, through the compensatory measures included in the reform, it will be possible to continue the efforts made in recent years to improve the situation of low and middle-income households and families.

B) Detailed Description

1. The Need for Action

1.1 Context

Successive governments in Ottawa have, for many years, expressed their intention to reform the federal manufacturers' sales tax because of its detrimental economic effects. In 1987, the federal government tabled a study that reiterated the basic criticisms levelled at the tax. Various options were explored, including a national federal-provincial sales tax. A federal-provincial committee subsequently studied, for two years, the feasibility of the proposal. In the spring of 1989, the federal government unilaterally ended these discussions. In his Budget Speech of April 1989, the federal Minister of Finance announced his government's intention to implement unilaterally a 9 % Goods and Services Tax on January 1, 1991. In August of that year, a technical document was published, specifying the mechanics of levying the new tax.

Québec and the other provinces voiced their opposition to the federal proposal in its initial form. The GST proposal had to be amended to prevent :

— unfavourable transitional economic effects ;

— negative financial effects on the provinces ;

— federal incursion into the retail sales taxation field, which would cause a reduction in the capacity of the provinces to discharge their constitutional responsibilities ;

— an increase in the complexity of the taxation system, an increase in the costs to businesses of complying with the tax and costly duplication of administrative systems.

Action by the provinces, particularly Québec, helped to make the GST proposal less problematic. Last December, it was announced that the anticipated GST rate would be lowered from 9 % to 7 %. In addition to reducing substantially the risks for the economy, the reduction limited incursion by the federal government into the consumption tax field. Through discussions with the federal government, the financial impact on the provinces, notably with regard to institutions in the public sector (municipalities, hospitals, school administrations and universities), and on provincial lottery corporations was, for all practical purposes, also eliminated.

Despite this progress, implementation of the GST would create a radically different situation, beginning on January 1, 1991, for all sectors of the economy, mainly because of the juxtaposition of two unharmonized consumption tax systems.

1.2 Problems arising from the implementation of the GST

There are several types of problems raised by the implementation of the GST.

1.2.1 Greater complexity for consumers and businesses

Were two sales tax systems, one provincial and the other federal, to be superimposed beginning next January 1, there would be major difficulties in applying the two taxes because of structural differences related to the operation of the systems and their tax bases.

At the present time, few businesses collect both the provincial retail sales tax, generally called the Québec sales tax, and the federal manufacturers' sales tax. The federal tax is usually applied at the manufacturers' or wholesalers' level, which means that retailers and consumers are usually unaware of it. Approximately 25 000 businesses are now subject to the tax in Québec, whereas nearly 240 000 agents collect the retail sales tax. There is therefore little overlapping of the systems. With the implementation of the GST, overlapping will assume major proportions. Almost all the present agents for the Québec sales tax will also have to collect the GST. This juxtaposition of two unharmonized sales taxation systems would complicate consumers' decisions to buy and make merchants' bookkeeping needlessly complex.

For consumers, the lack of harmony between the GST and the Québec sales tax would mean that a host of goods and services would not have the same status in the federal taxation system as in the Québec system. The differences range from minor to substantial but are sufficiently troublesome to greatly complicate merchants' lives. It is therefore in no way surprising that, among the 48 countries that have adopted a value added tax like the GST, none has simultaneously kept a retail sales tax in place.

1.2.2 Increased costs for businesses

Two unharmonized sales tax systems would particularly increase the costs that businesses must absorb as agents of the government in the collection of taxes. The agents would, in most cases, have to know and apply two different taxation systems. In practical terms, this means, in particular, that the taxable status of goods and services sold must be identified for two taxation systems, two different taxes must be remitted at different times covering different periods, procedures for finding out which taxation system is applicable to a new product would overlap, there could be two teams of auditors successively validating the information provided when taxes are remitted, and so on. This complexity in complying with the taxes would force many businesses to purchase new, more sophisticated equipment and to seek outside expertise in order to assume their role as agents.

Business associations have, on countless occasions, stressed the problems and costs inherent in superimposing two consumption tax systems. In this regard, the Canadian Federation of Independent Business has conducted studies to calculate these costs. It estimates that, generally speaking, it costs Canadian retailers an average of about $1380 a year to administer retail sales taxes.[1] The sums are large indeed from a Québec standpoint since some 240 000 businesses are government agents that collect the provincial sales tax. Implementation of the GST means that more businesses, i.e. almost 400 000, will have to administer a sales tax system. Superimposing two taxation systems without harmonizing them would result in other substantial costs.

This situation motivated several groups and associations to ask the Québec government to harmonize the Québec consumption tax system and to negotiate with the federal government unified administration of the two taxes. Representations were made by several sectors: employers' or business associations such as the Conseil du patronat du Québec, the Business Council on National Issues, the Chambre de commerce du Québec, the Canadian Manufacturers' Association, the Retail Council of Canada, the Canadian Organization of Small Business Inc., sectoral associations such as the Heating, Refrigeration and Air Conditioning Institute of Canada, the Canadian Council of Grocery Distributors, the Commercial Travellers' Association of Canada, the Canadian Steel Producers Association and the Rubber Association of Canada, not to mention such professional associations as the Canadian Institute of Chartered Accountants or think tanks such as the C.D. Howe Institute.

Businesses rightly stressed that all these expenses are unproductive. Given increased international competition, the objective should be to minimize the costs to businesses of complying with the taxation system so that their human and financial resources are directed toward developing new products and exploring new markets.

1.2.3 Higher government administration costs

Two unharmonized consumption tax systems would result in higher administration costs for the two levels of government. Whereas joint administration would permit economies of scale, superimposing the GST on the existing Québec sales tax system would require a second system for registration, collection, information and auditing. In Québec alone, duplication in the administration of provincial and federal sales taxes would require at least 500 person-years more than if a single administration handled both taxation systems. This means an additional cost of at least $35 000 000 for taxpayers. Given the extremely difficult budgetary context, the governments cannot assume such unproductive expenditures.

[1] *Retail Sales Tax Compliance Costs in Canada*, Canadian Federation of Independent Business, January 1990.

1.2.4 Need to maintain a fiscal balance

The unilateral implementation of the GST would give the federal government a dominant role in the consumption tax field. It would be taxing all retail sales, a field traditionally reserved for the provinces. In this regard, the GST is a better adapted fiscal instrument than the present Québec sales tax to the new economic environment, characterized by greater international competition and an increasingly extensive services sector. It is in the interest of Québec to have a modern taxation system so that it can continue to ensure that Quebecers receive the services they expect.

Major government action is therefore required to :

— avoid the unproductive expenditures and administrative chaos that would be created by superimposing the GST on Québec's present consumption tax system ;

— maintain Québec's capacity to dispense its public services while having access to a modern taxation field.

2. Government Action

The action taken by the Québec government is based on three main items:

— unified administration of the Québec sales tax and the GST resulting from Québec's obtaining the administration of the GST ;

— reform of the Québec consumption tax system to harmonize its application at the retail level with the GST ;

— a fairer tax system.

2.1 Administration of the federal GST

The Québec government's primary concern is to reduce the administrative complexity for consumers and businesses caused by the federal government's introduction of the GST, while minimizing administrative duplication. It has therefore agreed with the federal government to administer the GST in Québec under tax systems in which the application of the retail sales tax is harmonized. However, in view of the advanced state of implementation of the federal government's administrative structure as well as the time required to develop Québec's administrative structure, and in order to avoid compromising the January 1, 1991 effective date of the GST, it has been agreed that Québec's administration of the GST will be fully implemented effective January 1, 1992. A transition period is planned in the interim, during which the ministère du Revenu will assign certain Québec government employees to the federal administration, including qualified personnel hired specifically to administer the GST up to the effective date of the transfer of the administration, set for January 1992. During the transition period, Québec will develop its administrative structure and, beginning in 1992, federal human and material resources will be integrated into the provincial administration according to the terms and conditions agreed upon in the memorandum of agreement reached by the two governments. Québec administration of the GST will have to satisfy certain parameters to ensure uniform administration of the GST across the country. To achieve this, some administrative functions with direct impact on administrative uniformity will be retained by the federal administration. In particular, this involves issues of legal interpretation that have such impact.

The assumption of GST administration by the Québec government will not affect the legislative powers of the two levels of government in the area of taxation. Each government will remain free to change its tax system as it sees fit. Administration of the GST and the Québec sales tax by the Québec government will produce significant economies of scale which the governments will share according to a financial compensation formula whose parameters have been decided in the memorandum of agreement between the two governments on administration of the GST. It is estimated that the unified administration of the two taxes will allow a reduction of some 25% in the number of person-years otherwise required. However, Québec's administration of the two tax systems will produce an appreciable simplification for business only if the application of the two taxes is generally harmonized.

2.2 Harmonization of consumption taxes with the GST

2.2.1 Overview

Québec's consumption tax system consists of several types of duties or taxes introduced over the years. Among these, the tax imposed under the Retail Sales Tax Act is the main source of tax receipts among consumption taxes, accounting for about 64 %. The following table shows the Québec government's forecast budgetary revenue from consumption taxes and duties for fiscal 1990-1991.

BUDGETARY REVENUE
(in millions of dollars)

	1990-1991	%
☐ Retail sales tax	4 814	64
☐ Fuel tax	1 296	17
☐ Tobacco tax	651	9
☐ Meals and hotel tax	502	7
☐ Tax on telecommunications and electronic advertising	181	2
☐ Duties and permits — alcoholic beverages	100	1
Total consumption taxes and duties	**7 544**	**100**

The government first introduced the Québec sales tax in 1940. Since then, the tax base has been altered several times, especially by introducing exemptions designed to avoid taxing certain goods. Moreover, the application of the Québec sales tax was preceded and followed by other taxes applying specifically to certain products, such as fuel in 1924, meals served in hotels and restaurants located in cities in 1926, tobacco products in 1940, telecommunications in 1965 and electronic advertising in 1977.

The reform of consumption taxes is more specifically aimed at the application of the Québec sales tax and the integration of certain specific taxes into it, such as the taxes on electronic advertising, on telecommunications and on meals and hotels. Beginning in 1992, the Québec sales tax will be substantially changed and significant adjustments will be made for the 1991 transition period.

The general orientation of the reform of the consumption tax system in Québec is similar to the approach taken by the federal government in the GST system. This reform also reflects the determination to simplify the application of consumption taxes in Québec through a single administration by the Québec government of the Québec sales tax and the GST, under harmonized tax systems.

Beginning in 1992, the rate of the Québec sales tax will be 7 %. During the 1991 transition period, it will be 8 %.

These rate reductions will be accompanied by a broadening of the base. On January 1, 1992, the Québec sales tax base will include the sale of most real property and movables as well as the sale of most services. In general, the base will be identical to the GST base, especially concerning consumer sales.

With respect to purchases by businesses, unlike the GST, Québec's sales tax will not apply to purchases of goods and services made exclusively for resale or to purchases of components of a movable for subsequent sale. These important distinctions compared with the GST system take provincial constitutional authority into account with respect to certain of these purchases.

With the exception of goods and services bought exclusively for resale and purchases of components of a movable for subsequent sale, starting in 1992, the Québec sales tax will be extended to all purchases by businesses. Given the objective of eliminating cascading taxation caused by the application of the tax to purchases of goods and services by businesses, they will be able to claim a refund of amounts of tax paid on their purchases. In addition, these refunds will take the form of a reduction in the amount of tax otherwise collected and to be remitted. Like the GST, the refund of the tax on the purchase of goods and services by businesses will reduce their cost and may be reflected in price reductions at the consumer level. The taxation of business inputs will therefore have no impact on businesses since they will obtain a refund of the tax paid on them.

This major reform will also be accompanied by an integration of the tax on telecommunications, the tax on meals and hotels and the tax on electronic advertising into Québec's provincial sales tax. These taxes will be effectively eliminated since the goods and services to which they apply will be covered by provisions of the reformed Québec sales tax system.

During the 1991 transition period, for purposes of simplification, Québec's sales tax base will in general be harmonized with that of the GST for retail sales of movables aimed primarily at consumers. This broadening of the base will be offset by a reduction of the tax rate from 9 % to 8 %. Along with these changes, the meals and hotels tax will be integrated into the Québec sales tax. In this case, the reduction of the rate will be two percentage points, i.e. from 10 % to 8 %.

Details of the reform of the consumption tax system are given in the section "Additional Information on the Implementation of the Reform".

CONSUMPTION TAX REFORM
SUMMARY TABLE

	FULL REFORM : 1992	TRANSITION PERIOD : 1991
1. ADMINISTRATION OF THE GST	♦ Québec assumes the administration of the GST within its borders	♦ Federal government administers the GST
2. HARMONIZATION OF CONSUMPTION TAXES WITH THE GST		
Retail sales tax Current rate : 9 %	♦ Broadening to all goods and services subject to the GST ♦ Exclusion of purchases for resale and component goods ♦ Refund of taxes paid on purchases made as part of a business activity ♦ Rate reduced to 7 %	♦ Broadening to all movable goods ♦ The tax will not apply to services currently exempt and to real property ♦ Purchases for the purposes of resale, and components will be excluded ♦ Rate reduced to 8 %
Tax on telecommunications Current rate : 9 %	♦ Integration into the sales tax ♦ Rate reduced to 7 %	♦ Tax maintained in 1991 ♦ Rate reduced to 8 %
Meals and hotels tax Current rate : 10 %	♦ Integration into the sales tax ♦ Rate reduced to 7 % ♦ Elimination of the notion of establishment	♦ Integration into the sales tax ♦ Rate reduced to 8 % ♦ Elimination of the notion of establishment
Tobacco and fuel taxes The sales tax does not currently apply to these products. Specific taxes are levied.	♦ Products included in the sales tax base and taxed at 7 % ♦ Reduction of specific taxes to avoid excessive price increases for these products GASOLINE : reduction to maintain same general price level FUEL OIL : application of same tax as that on gasoline TOBACCO : reduction of rates to limit the increase to 1 cent per cigarette	♦ Products included in the sales tax base and taxed at 8 % ♦ Specific taxes reduced to maintain a constant overall taxation of these products
Taxes and duties on alcoholic beverages	♦ Increase in the specific tax and duty per litre and reduction in the duty rate to 7 % : price increases of 1.4 cents per bottle of beer and 6 cents per bottle of wine	♦ Adjustment to the specific taxes and duties to offset the reduction of the sales tax rate to 8 %
Special sectors Public sector institutions	♦ Partial refund to maintain a constant tax burden	
Charitable and non-profit organizations	♦ Refund of 50 % of the tax	
Financial institutions	♦ Measures to be announced to maintain interprovincial competitiveness of these institutions ♦ Maintenance of current system of taxation of insurance premiums	♦ Maintenance of current system of taxation of insurance premiums
Residential construction	♦ Refund of 2.5 percentage points to limit price increase for new housing	
Businesses Tax on profit, tax on capital, and contribution to the Health Services Fund	♦ Increase in rates : rise of $297 000 000 in tax burden of businesses	
3. FAIRER TAX SYSTEM **Protection of purchasing power of low-income households** Against the impact of changes to consumption taxes	♦ Implementation of a refundable tax credit and equivalent compensation for households receiving income security e.g. : $230 for a couple with two children	♦ Immediate implementation of a refundable tax credit and equivalent compensation for households receiving income security e.g. : $230 for a couple with two children
Against inflation not related to changes in taxes	♦ 4.5 % indexation of essential needs recognized in the tax system and transfer programs	

2.2.2 Illustration of the operation of the Québec sales tax in the system when fully implemented beginning in 1992

When fully implemented, Québec's sales tax system will provide that purchases made exclusively for resale purposes as well as purchases of components of movables for subsequent sale will not be liable to tax and that businesses will be entitled to a refund of the tax paid on their other purchases of goods and services. This is illustrated in the following table representing the manufacture and marketing of furniture.

OPERATION OF THE QUÉBEC SALES TAX AT 7 % WHEN FULLY IMPLEMENTED FURNITURE MANUFACTURING AND MARKETING (in dollars)

Commercial stage	Purchases	Tax on purchases	Refunded tax
Logger	75	5.25	5.25
Sawmill			
– purchases of components	100	0	0
– other purchases of goods	50	3.50	3.50
Manufacturer			
– purchases of components	200	0	0
– other purchases of goods	50	3.50	3.50
Wholesaler			
– purchase of furniture for resale	350	0	0
– other purchases of goods and services	50	3.50	3.50
Retailer			
– purchase of furniture for resale	425	0	0
– other purchases of goods and services	70	4.90	4.90
Consumer (purchase of furniture)	550	38.50	0
Total tax charged		59.15	
Total tax refunded			20.65
Net tax burden = tax paid by consumer			38.50

In this example, the sale of components by the logger to the sawmill and by the sawmill to the manufacturer will not be taxable. The sale of furniture by the manufacturer to the wholesaler and by the wholesaler to the retailer will not be taxable since the manufactured item has reached its final state and is bought exclusively for resale purposes. On the other hand, since only such goods purchased for resale purposes and components of movables for subsequent sale will not be subject to the tax, other purchases by manufacturers, producers, retailers and wholesalers for business purposes will be taxable. However, they will be able to claim a refund for the amount of tax thus paid on purchases made for business purposes.

2.2.3 Tax base

The reform of Québec's sales tax will cause the tax to be applied to most supplies of real property, movables and services, unless they concern purchases of goods and services made exclusively for resale purposes and the purchase of components of a movable for subsequent sale. In addition, the tax base will generally be harmonized with the GST base. Hence, supplies of goods and services exempt from the GST will be exempt from Québec sales tax, as will supplies of goods and services zero-rated under the GST system. In this tax system, the distinction between exempt and zero-rated supplies is that exempt supplies do not entitle the taxpayer to input tax credits while zero-rated supplies do.

In general, supplies of goods and services exempt from the GST include supplies of certain real property and farmland in certain circumstances, most supplies of health services, teaching services, child care services and personal care services, legal aid services, financial services and certain services of public sector agencies and charitable or non-profit organizations. Supplies of zero-rated goods and services include supplies of prescription drugs and basic groceries, exports, certain goods in the agriculture and fisheries sectors and the supply of certain transportation services.

The harmonization of Québec sales tax exemptions with supplies of exempt or zero-rated goods and services under the GST system will necessarily involve substantial changes to existing tax exemptions such as those for groceries, prescription drugs and goods designed to palliate a physical impairment or handicap. In addition to the harmonization of the Québec sales tax base and its exemptions with those of the GST, in general, the operational provisions of the Québec tax will also be harmonized with those of the GST. In particular, this involves the points of application and remittance periods. Details of all these changes are given in the section "Additional Information on the Implementation of the Reform" in this Appendix.

2.2.4 The rate: 7 %

In deciding on the new rate of the Québec sales tax, it appeared necessary to ensure that the reform give rise to the least possible impact on the general price level. Even when the broadening of the tax base is taken into account, the 7% rate will mean a loss of revenue for the government. In addition, other changes will be made to limit the price increases resulting from the application of the sales tax to products already subject to a specific tax system, i.e. fuel and tobacco. In the case of gasoline, the specific tax will be reduced in order to prevent a price increase. The specific tax on fuel oil will be set at the same level as the tax then applying to gasoline. For tobacco products, the specific taxes will be reduced to limit the price increase resulting from the application of the sales tax to 1 cent per cigarette. Moreover, all taxes and duties applying to alcoholic beverages will be adjusted to take into account the implementation of the GST and the harmonization of the Québec sales tax. The changes will be reflected in price rises for these products equivalent to about 1.4 cents for a small bottle of beer and to 6 cents per bottle for wine. In all, changes to consumption taxes will reduce the yield by $239 000 000 for the full year 1992.

This drop in consumption tax receipts will limit the impact of the reform on prices in Québec to only 0.4 %. The risks of a surge in inflation resulting from wage demand reaction are minimal. In addition, a refundable sales tax credit will protect low-income households for this one-time increase in prices: essential needs recognized under taxation and transfers will be indexed by 4.5 % to compensate for inflation not attributable to the consumption tax reform.

In the absence of other initiatives, the cost of these off-setting measures and the $239 000 000 reduction in yield from the sales tax would cause government revenue to drop significantly. Businesses whose competitiveness will be increased by the reform will be required to finance part of this shortfall. Starting January 1, 1992, business tax rates will be raised, while the existing business surtax of 15 % will be eliminated and integrated into these rates. This measure will increase the tax burden of businesses by $297 000 000. It will cover employers' contributions to the Health Services Fund, the tax on capital and corporate income tax. The following table shows the tax rates that will apply starting in 1992.

RATE OF EMPLOYERS' CONTRIBUTION TO THE HEALTH SERVICES FUND, TAX ON CAPITAL AND CORPORATE INCOME TAX

	Until December 31, 1991[1] %	Starting January 1, 1992 %
Employers' contribution to the Health Services Fund	3.45	3.75
Tax on capital		
☐ General rate	0.52	0.56
☐ Banks, and trust and loan companies	1.04	1.12
Corporate income tax		
☐ Active business income		
— Eligible for the SBD[2]	3.45	3.75
— Other income	6.33	6.90
☐ Non-active business income	14.95	16.25

1 Effective rounded rates taking into account the existing 15 % surtax.

2 Small business deduction.

2.2.5 Special application sectors

The extent of the reform of the Québec sales tax and its potential impact on certain special sectors require specific provisions to minimize this impact. The sectors in question are financial services, charitable and non-profit organizations, the public sector and residential construction.

Financial services

Like the GST system, the reform of Québec's sales tax does not extend the application of the tax to financial services currently not covered by it. However, the tax on insurance premiums under the existing system will be maintained at current rates. In the GST system, most financial services are classed as exempt. As such, they do not give entitlement to input tax credits for businesses that provide such services. Thus, in general, these businesses pay the GST on purchases of goods and services used for purposes of providing their financial services and obtain no tax refund in this regard.

The approach taken in the GST system will also be followed in the Québec sales tax system. However, in view of the possible impact of an increase in the tax burden on the financial sector, detailed studies will be carried out to ensure that the reform of Québec's sales tax does not reduce the ability of Québec's financial firms to compete. Adjustments based on the results of these studies may be in force starting in 1992.

Charitable and non-profit organizations

Analogously to the treatment specified in the GST system, activities of charitable and non-profit organizations will not be subject to the Québec sales tax unless they involve supplying commercial goods and services. In addition, given the special role of these organizations and to avoid a reduction in their activities, charitable and non-profit organizations will be able to claim, beginning in 1992, a refund equal to 50% of the amount of Québec sales tax paid on their purchases of goods and services. It should be noted that these organizations are not entitled to any special refund under the existing Québec sales tax system.

Public sector

In Québec, the public sector consists mainly of the Québec government, the federal government, their agencies, municipalities, school boards, colleges, universities and hospitals.

Under the GST system, supplies of goods and services by the public sector will not be subject to tax, unless such supply involves commercial activities that are not, a priori, in the nature of a public service. In this regard, Québec's tax system will be harmonized with the GST system.

Moreover, school boards, colleges, universities and hospitals, given the broadening of the sales tax base and to avoid increasing their tax burden, will be able to claim, beginning in 1992, a refund of part of the amount of Québec sales tax paid on their purchases. This refund will be set at a level that will maintain the same overall tax burden for consumption taxes after the 1992 reform as before. This will also apply to municipalities to avoid increasing their tax burden under the current system of mutual application by the government and the municipalities of taxes, duties and fees.

Residential construction

Québec's sales tax will apply in particular to sales of newly built residences and to commercial buildings. To simplify the application of the tax, the definitions of buildings and their tax treatment, used for the application of Québec's sales tax, will generally be the same as those used in the GST system.

Currently, the Québec sales tax applies at a rate of 9 % to purchases of building materials, to a portion of the inputs used in the production of these materials and to capital goods used in construction. For Québec as a whole, the amounts of this tax account for an average of 3.8 % of the sale price of a newly built residence. Following the reform, the application of the 7 % Québec sales tax to the entire sale price of a new house, including the land, would cause a 3.2 % increase in the price of new houses in the absence of any compensating measure.

The government considers continued accessibility to affordable housing for all Québec households to be very important. It will take whatever measures are needed to ensure the sales tax reform does not jeopardize this commitment. In rental housing, tenants will be protected by the exemption granted on long-term residential rents and low short-term rents.

The government also wants to ensure that home ownership remains affordable. A 2.5 % Québec sales tax refund will therefore be granted on new residences of $150 000 or less. In addition, a partial refund will be granted for residences between $150 000 and $175 000. This refund will greatly limit the impact of the reform on the price of an average house, as shown in the following table.

IMPACT OF THE REFORM ON THE PRICE OF AN AVERAGE NEW HOUSE BY REGION
(in dollars)

Region	Average price[1]	Current provincial tax[2]	Additional tax	Refund of 2.5 %	Impact after refund		Change in monthly mortgage payments[3]
						%	
Chicoutimi-Jonquière	78 886	3 155	2 146	1 893	252	0.3	1.95
Drummondville	69 054	2 762	1 878	1 657	221	0.3	1.71
Granby	74 868	2 995	2 036	1 797	240	0.3	1.85
Hull	105 205	3 945	3 143	2 532	612	0.6	4.73
Montréal	131 517	4 603	4 281	3 173	1 108	0.8	8.58
Québec City	123 302	4 624	3 684	2 967	717	0.6	5.55
Saint-Jean-sur-Richelieu	108 000	4 050	3 227	2 599	628	0.6	4.86
Shawinigan	63 561	2 532	1 740	1 526	215	0.3	1.66
Sherbrooke	86 006	3 440	2 339	2 064	275	0.3	2.13
Trois-Rivières	77 483	3 099	2 108	1 860	248	0.3	1.92

1 Based on CMHC price statistics for the period from November 1989 to April 1990.

2 Included in the current price.

3 Based on a 25 % downpayment and a mortgage amortized over 25 years at an interest rate of 12 %.

The increase in house prices caused by Québec's sales tax will depend on the portion of the total price that corresponds to items currently not taxed. The price of houses will rise relatively less in regions with a lower population density than in urban areas, owing to the fact that the price of land is lower in less heavily populated regions.

In spite of this, the price increase of a typical house in the Montréal region, where land is more expensive than anywhere else in Québec, will not exceed 0.8 %, amounting to a rise in the monthly mortgage payment of less than $9. In the Québec City, Hull and Saint-Jean-sur-Richelieu regions, the price increase will be about 0.6 %. For other regions in Québec, the price of a new home will rise by an average of only 0.3 %.

More than 90 % of new construction will entitle purchasers to a refund. The total cost of the refund will amount to about $73 000 000 in 1992.

2.3 A fairer tax system

Needy households generally spend most of their income, so that consumption taxes can take up a larger portion of their disposable income than is the case for more affluent households. Adequate means will therefore be implemented as part of the reform of Québec's sales tax to protect the purchasing power of low-income households.

The tax system offers several instruments that can be used to protect low-income households to compensate them for the burden of consumption taxes. Under the reform, three basic choices were made in this regard :

— elimination of several major exemptions in association with a reduction of the Québec sales tax rate to 7%;

— introduction of a refundable sales tax credit and of an equivalent increase in income security scales to compensate low-income households for tax increases as a result of the reform;

— in 1992, indexation at 4.5% of the essential needs recognized by the income security system and the tax system to protect households against loss of purchasing power resulting from inflation that is not attributable to the federal and Québec consumption tax reforms.

2.3.1 Elimination of several Québec sales tax exemptions and reduction of the rate to 7 %

In the past, sales tax exemptions have been introduced for several goods, notably to reduce the impact of consumption taxes on low-income households. Examples include the exemption for clothing of $500 or less, for shoes of $125 or less and for furniture. Certain exemptions will be eliminated under the reform of the Québec sales tax.

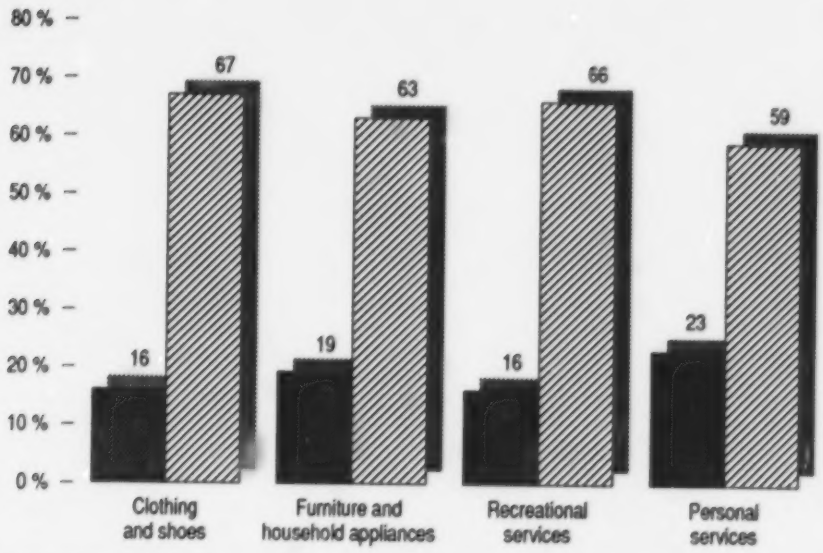
Consumption, and more specifically the cost of goods to satisfy essential needs, account for a larger proportion of disposable income for low-income households. Nonetheless, middle and high-income households on average spend much more on consumption, even on goods considered to be essential. In this way, more affluent households derive the greatest share of the benefits targeted by the government for lower-income households by exempting various goods and services from the tax.

Clothing and shoes, which make up the largest exemption at present, will serve as an example. In 1991, the continuation of this exemption in the Québec sales tax system at the current 9 % rate would cost the government $540 000 000. When households are divided by increasing order of income into five groups (quintiles), each containing 20 % of families, the first quintile, i.e the households with the lowest income, is seen to pay $27 000 000 less in sales tax as a result of the exemption for clothing, or 5 % of the cost of this measure. On the other hand, the last quintile, i.e. the most affluent households, would enjoy a benefit of $221 000 000 or 41 % of the value of the exemption. Had the government wanted to protect only the first 40 % of all households, i.e. those with an income of less than $31 500, the cost would have been only $87 000 000 for this year.

DISTRIBUTION OF BENEFITS FROM THE SALES TAX EXEMPTION GRANTED FOR CLOTHING AND SHOES (valued at 9 % in 1991).

Quintile	Upper income of quintile	Clothing and shoes	
	in dollars	in millions of dollars	%
1	17 500	27	5
2	31 500	60	11
3	48 200	91	17
4	69 000	141	26
5	—	221	41
Total		540	100

DISTRIBUTION OF BENEFITS FROM CERTAIN SALES TAX EXEMPTIONS (percentage of benefit)



An analysis of other types of spending, in particular for services currently not subject to the tax, produces similar results. The preceding histogram shows the portion of the cost of exemptions for certain goods and services attributable to the first two and the last two income quintiles. In each case, higher-income households derive the greatest benefit from these exemptions.

Contrary to popular belief, sales tax exemptions benefit the more affluent households most of all, and are a needlessly expensive means of protecting low-income households. The government's revenue shortfall must be offset by a higher rate of tax that low-income households must pay on their taxable purchases.

Financial compensation for low-income households, for example a refundable sales tax credit, is much better protection for the client group the government wants to target. In addition, the broadening of the tax base resulting from the elimination of exemptions will allow a lower tax rate, for the same total amount of receipts, on the other goods and services, reducing the economic distortions and benefiting all taxpayers.

2.3.2 Implementation of a refundable sales tax credit

A new refundable sales tax credit will offset the amount of the additional sales tax for low-income households attributable to the reform. The new tax credit will be structured as follows :

Maximum amount : $90 for an adult;
$50 for taxpayers entitled to the tax credit for a person living alone;
$25 for each dependent child;
$15 more for the first dependent child of a single-parent family.

The maximum value of the credit will therefore be :
$230 for a couple with two children;
$140 for a single person living alone;
$180 for a single-parent family with one child.

Taking into account the drop in consumption tax receipts resulting from the reduction in the rate to 7 %, these tax credit amounts will ensure that low-income households benefit from the Québec sales tax reform. The amount of the tax credit has been set to compensate for the impact of the reform in 1992. Starting in 1993, the maximum amounts of the refundable sales tax credit will be adjusted at the same rate as for essential needs recognized in the income security and taxation systems.

The refundable sales tax credit will be reduced by 2 % of the value of family income used for purposes of the tax reduction for families and the property tax refund, i.e. generally the income over and above that at which a family starts to pay income tax. An additional deduction of $4000 will be granted in calculating this income for persons under 65 who are entitled to the amount for persons living alone without dependent children. This additional deduction will also apply to the property tax refund and will provide more adequate recognition that such persons bear the entire cost of maintaining a dwelling alone.

Households receiving benefits under income security programs will receive compensation in the form of additional monthly benefits rather than as a refundable tax credit.

Amounts equivalent in value to the tax credit will be added to the benefit scales of the EI, PWA and financial support programs. This will provide households in greatest need with protection starting as soon as the reform becomes effective.

Moreover, the ministère du Revenu will provide a prepayment of the refundable tax credit for low-income persons 65 years old or over, who receive an additional property tax credit refund as beneficiaries of the federal Guaranteed Income Supplement. Other taxpayers may claim the tax credit when they file their tax return.

2.3.3 Recognized essential needs in 1992 indexed by 4.5%

Protection of the real income of low-income households requires not only that they be compensated for the tax increases attributable to changes in the Québec sales tax system, but also that they be protected against loss of purchasing power resulting from inflation not attributable to these tax changes. As was done in the past two years, the essential needs recognized by the income security system and the tax system will be indexed in 1992 by 4.5 % to compensate taxpayers for inflation not attributable to the Québec and federal consumption tax reforms. The following table illustrates how the purchasing power of low-income households will be protected.

PROTECTION OF PURCHASING POWER OF LOW-INCOME HOUSEHOLDS IN 1992

Sources of loss of purchasing power	Compensating measures
Inflation during 1991 not attribuable to the Québec and federal consumption tax reforms	4.5 % indexation of recognized essential needs
Application of the federal GST (impact of 1.2 % on prices)	Refundable federal tax credit for GST
Reform of the Québec sales tax : 7 % rate (impact of 0.4 % on prices)	Refundable Québec tax credit and compensation for households receiving income security

This package of measures will fully protect the purchasing power of low-income households. Their real disposable income will actually be greater as a result of these reforms. The positive economic effects resulting from a reorganization of sales taxes while maintaining the fairness and progressivity of the tax system will therefore have been obtained.

3. Impact of the Measures Announced

3.1 Simplification of compliance with the taxation system and reduction in administration costs

If, on January 1, 1991, the Québec sales tax remained the same as it now is, retailers, as agents, would be confronted with the difficult task of collecting two very different taxes simultaneously, which would make the accounting of transactions and taxes, as well their collection and remittance to the governments more complex.

The marked difference between the federal and Québec tax bases would be one of the basic elements of this complexity. Other elements would also play a part, including administrative procedures.

Furthermore, the main objective of introducing, for certain agents, streamlined or quick accounting methods for establishing their GST remittances is to reduce the complexity of administering the tax. The use of these methods is, however, limited to certain businesses according to the magnitude of their sales. The choice of these methods is optional.

Despite the existence of these methods, a large number of businesses will not be able or will choose not to use them, thereby being forced to bear fully the inconvenience of managing two taxation systems with different tax bases.

Harmonization of the two taxation systems in regard to retail sales will make it possible to simplify the role of agents in the recording of transactions and the calculation of taxes at the cash register.

Harmonization and the Québec government's assumption of responsibility for administration of the GST will yield another major benefit, i.e. lower compliance costs for businesses.

They will not be faced with two different taxation systems and two different taxation administrations. For example, at the present time, the Québec sales tax system provides for remittance of the tax no later than the 15th day of the month following that of the transaction. In the GST system, several rules regarding remittance of the tax have been provided for; they depend on the sales figure of the business. For example, a business whose sales figure is $6 000 000 or less may make quarterly remittances no later than the last day of the month following the end of the quarter or monthly remittances no later than the last day of the month following the month in question, depending on the reporting period the business has chosen. A business that has a sales figure of $500 000 or less may remit the tax annually in the three months following the end of its reporting period, with quarterly instalments payable no later than the last day of each quarter, unless the net GST to be remitted is less than $1 000, or on a quarterly or monthly basis. A business whose sales figure is over $6 000 000 must remit the tax monthly no later than the last day of the month following the month in question.

In 1992, when the two taxation systems have been fully harmonized, both systems will generally treat goods and services in the same way and will have the same administrative rules, resulting notably in businesses applying both taxes at the same time, having the same reporting periods, making tax remittances on the same dates and, as a general rule, taxing the same goods in the same manner.

The fact that businesses will only have to deal with a single administration will also help to lower their compliance costs. They will complete their tax remittance reports, which will be sent to the same place for each reporting period, they will be served by a single information system and auditing will be carried out by the same auditors for both taxation systems. They will thereby avoid the problems inherent in duplication of the administration of two taxation systems.

3.2 Economic effects

In the coming years, the reform of the Québec sales tax will gradually improve the performance of the Québec economy by better adapting the consumption tax system to the realities of the 1990s in two main ways. First, it will reduce production costs by eliminating most of the tax now applicable to purchases by businesses. Next, the broadening of the tax base will improve the neutrality of the taxation system.

3.2.1 Reduction in Québec's production costs

The effect of the taxes levied on purchases by businesses of common capital assets or inputs is to increase production costs, which may be reflected in the selling price of their goods. In this situation, the more steps there are in processing a good, the more likely it is that the price of the good will be made up of a substantial proportion of taxes accumulated through the various production stages. This gives rise to tax cascading when the tax applies to a good whose inputs have also been taxed.

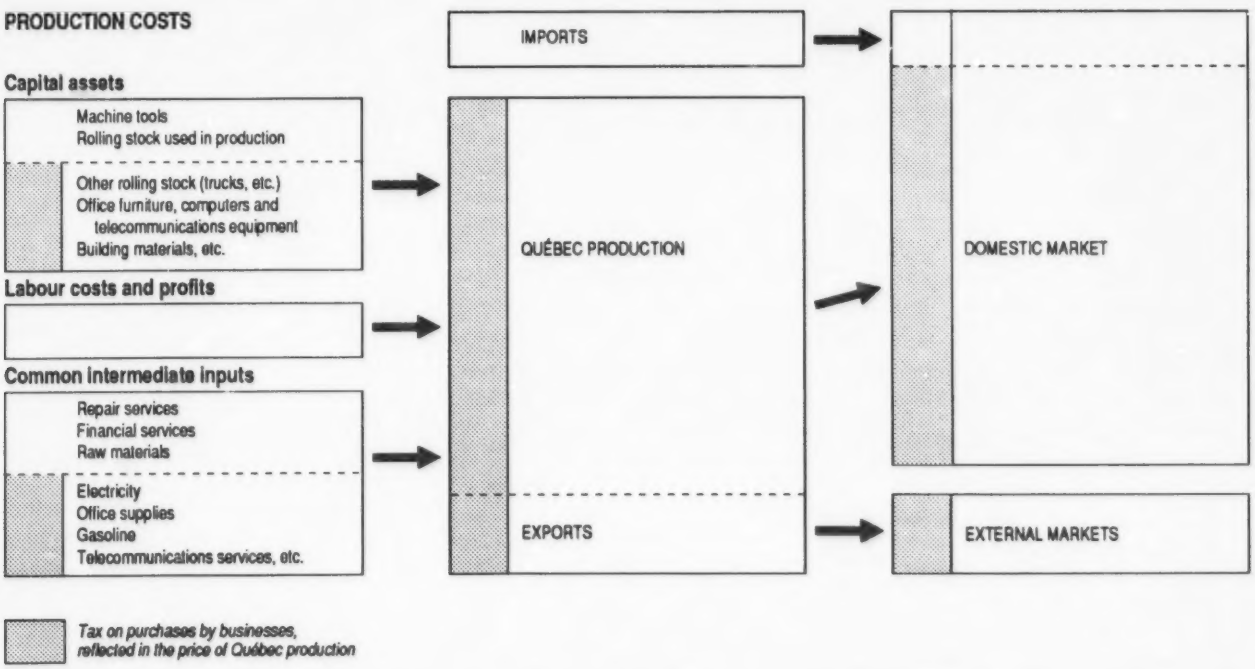
The diagram below shows that a large proportion of the common capital assets and inputs of businesses are now subject to the sales tax. In fact, more than one-third of the yield of the present consumption tax system is from the taxation of purchases by businesses.

The reform will eliminate tax cascading through refunding of the sales tax paid on purchases related to a commercial activity. The reduction in the production costs of businesses will have a positive macroeconomic impact, changing the relative prices of the various components of the final demand, notably by favouring investments and net exports.

First of all, the reform will favour investment. Although production equipment is now exempt, the present sales tax imposes a heavy burden on investments in real property, and machinery and equipment. Trucks, automobiles, office furniture, computers and telecommunications equipment purchased by businesses are all subject to the 9 % sales tax, as are building materials, which constitute a large proportion of the cost of constructing plants and office buildings. It is estimated that non-residential investments by businesses support an average of 3.5 % of the Québec sales tax. Once tax cascading is eliminated through the reform, non-residential investment should grow substantially in the long term. The resulting increase in capital stock will raise Québec's production volume and the productivity of Québec workers.

The refunding of taxes paid on purchases of businesses will also have a beneficial effect on external trade. When the cost of Québec production is increased, the taxes paid by businesses reduce their competitiveness on external as well as domestic markets. The impact is even more considerable for a product that undergoes many processing stages in Québec, since the cascading taxes accumulate in its final price. The capacity of Québec producers to compete with imports on our own market is thereby reduced, as is the capacity of our exporting industries to penetrate external markets. The reform should reduce the average cost of Québec's exported goods and the average cost of Québec products competing with imports by about 1 %. The resulting improvement in the competitiveness of goods manufactured in Québec will have a positive impact on foreign trade in goods and therefore on the GDP.

IMPACT OF EXISTING TAXATION OF PURCHASES BY BUSINESSES ON QUÉBEC PRODUCTION COSTS



Consumer prices will rise slightly, by 0.4 %. The increase will obviously be higher in categories of goods and services that now benefit from exemptions, such as clothing and shoes. The price of goods now taxed, such as electricity and automobiles, will, on the other hand, decrease. Housing will increase in price. The rise will, however, be limited in the case of new construction because of the 2.5 % tax refund for new housing.

The economic effects of the reform have been estimated assuming that the exemption of common inputs will mean an equivalent drop in consumer prices and the cost of exported goods. In the long term, the proposed reform will mean a general increase in production of 0.5 % and a rise in employment of 0.3 %. The increase in investments and the improvement in net exports will more than offset the impact of the rise in consumer prices on household demand.

The measures aimed at offsetting the effects of the reform on low-income households will reduce the anticipated impact on consumption. Lastly, the positive impact of the reform on the growth potential of the Québec economy could be even greater than estimated since the long-term impact of the reduction in the cost of capital assets, which will mean lower prices for finished products and additional economic gains, has not been quantified.

3.2.2 Improvement in the neutrality of the taxation system

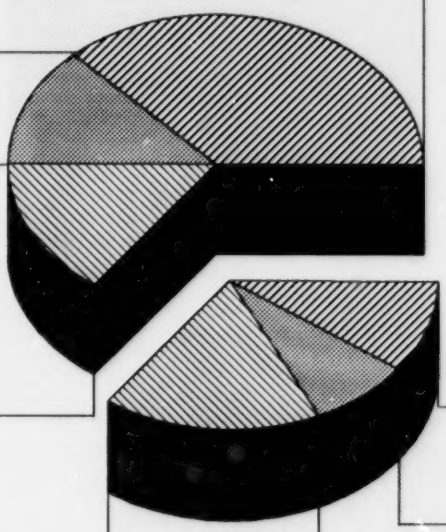
By not taxing many major goods and services, the present consumption tax system is discriminatory with regard to producers of taxed goods, whose production bears the whole of the tax burden. The broadening of the tax base through the reform of the sales tax will reduce these inequities and make the tax burden on the production of the various industrial sectors more uniform.

The broadening of the tax base will improve the neutrality of the taxation system for consumers. The variations in prices generated by the disparities in taxation misrepresent consumers' choices and distort their decisions to buy. Since the present sales tax is mainly aimed solely at goods, the limited tax base requires a higher rate, which amplifies the distortions caused by taxation. Broadening of the tax base will make it possible to reduce the rate of the sales tax to 7%.

The elimination of the various sales tax exemptions will result, as the following pie chart shows, in a larger proportion of household consumption being taxable, thereby reducing price disparities caused by taxation. The reform will thus adapt the Québec consumption tax system to changes in consumer choices. For several years, growth in the consumption of goods has been slower than in the consumption of services, as illustrated in the following histogram. The result has been exacerbation of the problem of the limited tax base.

Applying a lower sales tax rate to a wider range of goods will considerably reduce microeconomic distortions. The reform will thereby help to bring the relative prices of the various goods closer to their relative production costs, which will favour better allocation of resources among the productive sectors of the economy. These gains in efficiency will result in an increase in production potential, added to the macroeconomic effects already mentioned.

IMPACT OF REFORM ON PROPORTION OF TAXABLE GOODS AND SERVICES IN HOUSEHOLD CONSUMPTION IN 1992 (in percentage)



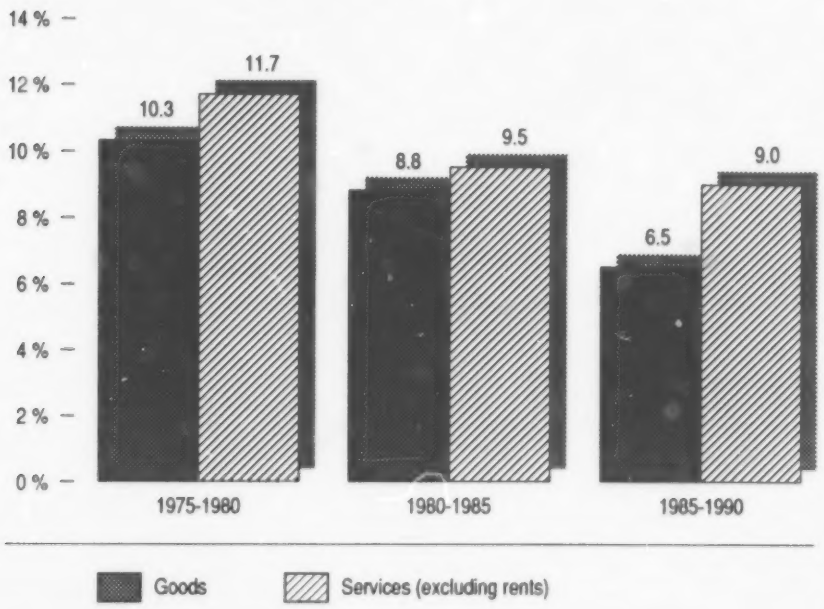
GOODS

	Main elements
Goods now taxed (37 %)	Vehicles and parts Electrical appliances Recreational and sports equipment Electricity and heating fuels Fuels Tobacco and alcohol
Broadening of range of goods (13 %)	Clothing and shoes Furniture Stoves and refrigerators Soap Textiles Books and periodicals School supplies Newspapers
Goods remaining exempt (15 %)	Food Prescription drugs Certain medical devices

SERVICES

	Main elements
Services now taxable (10 %)	Telephone and cable Restaurant services Certain insurance premiums
Broadening of range of services (8 %)	Repairs Recreation and culture Personal services Hotel rooms Transportation
Services remaining exempt (17 %)	Health services Child care Educational services Other financial services Municipal public transportation

GROWTH IN CONSUMPTION OF GOODS AND SERVICES BY HOUSEHOLDS
(average annual rate in percentage)



3.3 Effects on the tax burden and on disposable income

The reform of the Québec sales tax will heighten economic efficiency without increasing the burden of taxpayers in the private sector. The 4.5 % indexation of essential needs in 1992 will protect the purchasing power of households by increasing their disposable income.

The broadening of the sales tax base and the reduction in the rate to 7 % will result in a sizable drop in budgetary revenue. In 1992, over the full year, the economic agents of the private sector will provide $239 000 000 less in consumption taxes. This includes all the effects of changes in consumption taxes, particularly the tax refund in regard to housing, the amendments to the system of specific taxes on tobacco and fuel, and adjustments to the various taxes and duties on alcoholic beverages.

The introduction of a refundable sales tax credit will increase the disposable income of households by $151 000 000. Furthermore, the rise in the income security scales by an amount equal to the tax credit will increase the benefits paid to households by $54 000 000. The 4.5 % indexation of recognized essential needs will mean a drop in taxes of $304 000 000 and an increase in benefits under the EI and PWA programs of $72 000 000. In all, the measures announced to improve the fairness of the taxation system will increase disposable household income in Québec by $581 000 000 in 1992.

To compensate for part of the shortfall arising out of the drop in revenue from consumption taxes and measures to improve the fairness of the taxation system, the three business taxes will be increased beginning on January 1, 1992. This measure will increase the tax burden of business by $297 000 000. In all, the measures announced today will leave taxpayers in the private sector with an additional $523 000 000.

REDUCTION IN TAX BURDEN AND INCREASE IN DISPOSABLE INCOME RESULTING FROM REFORM OF CONSUMPTION TAXES
(in millions of dollars)

	1992 taxation year
Reduction in consumption taxes	239
Improvement in fairness of taxation system	
Refundable sales tax credit	151
Compensation for households benefiting from income security with regard to sales tax	54
4.5 % indexation of taxation system and family allowances	304
Indexation of EI and PWA programs	72
Subtotal	581
Less increase in business taxes	– 297
Gain for taxpayers in the private sector	523

3.4 Impact on typical households

Despite the reduction in consumption tax receipts, the effect of the reform will be to increase slightly the sales taxes directly borne by households. This is mainly the result of the shift in taxes levied on the purchases of exporting businesses toward goods destined for domestic consumption. However, the new refundable sales tax credit and the equivalent increase in the income security scales will more than offset this tax increase for low-income families. Furthermore, the 4.5 % indexation of essential needs will protect the purchasing power of taxpayers from inflation not related to Québec and federal reforms of consumption taxes.

The following two tables show that the measures announced are highly favourable to families with children and that they adequately protect all low and middle-income families. The disposable income of a couple with two children will increase by $392 if its work income is $25 000 and by $207 if its work income is $40 000. The other tables provide additional details of the effects of the various measures.

Generally speaking, the disposable income of couples with children earning less than $30 000 will increase because of the reform of the Québec sales tax. The tax burden of a couple with two children whose work income is $25 000 will increase by $147 for 1992, once all the elements of the reform are in place. However, the government will grant the couple a refundable tax credit of $230. The 4.5 % indexation of essential needs will protect the purchasing power of the household by increasing its disposable income by $309. The measures announced will result in a total gain for this family of $392.

Single people with low incomes will also be protected. As a general rule, those whose incomes are under $18 000 will benefit from the reform of the Québec sales tax, while those with an income of up to $25 000 will not be affected. The sales tax burden of a single person living alone, with an income of $10 000 a year, will rise by $91, but he will receive a sales tax credit of $140 and an additional property tax refund of $44. The indexation of essential needs will give him an additional $61. The measures announced today will mean a total gain of $154 for him.

The analysis of the effects on other typical households yields the same type of results. In the case of higher-income households, the effects given do not take into consideration the beneficial economic impact of the Québec sales tax reform. In the medium term, the reform will increase income and employment, which, in many cases, will more than compensate for the additional amount of sales tax.

IMPACT OF REFORM OF CONSUMPTION TAXES
(when fully implemented, in 1992 dollars)

Household work income	Couple with one child under 6	Couple with two children under 6		Couple with three children under 6	Single-parent family with one child under 6	Couple under 65 with no children	Single person under 65 living alone
	One work income	One work income	Two work incomes	One work income		One work income	
0	674	759	793	804	496	565	344
5 000	677	762	856	835	579	583	397
10 000	669	781	904	826	640	583	154
15 000	526	616	959	660	598	159	104
20 000	533	604	1 006	648	422	47	– 5
25 000	382	392	823	245	263	18	1
30 000	279	366	812	456	157	9	– 13
35 000	198	262	409	352	88	—	– 113
40 000	171	207	529	247	78	– 40	– 147
50 000	122	147	362	188	– 70	– 59	– 174
75 000	– 83	– 61	92	– 26	– 141	– 102	– 229

Note 1 : The impact includes all changes to consumption taxes with the exception of tax adjustments applying to the tobacco and alcoholic beverages taxation system, and measures aimed at improving the fairness of the taxation system.

Note 2 : For the couple with two work incomes, one of the spouses earns 60 % of the household income and the other, 40 %.

IMPACT OF REFORM OF CONSUMPTION TAXES
RETIRED TAXPAYER 65 YEARS OF AGE OR OVER
(when fully implemented, in 1992 dollars)

Total household income	Single person living alone	Couple with no children
15 000	100	n.a.
20 000	26	122
25 000	– 68	156
30 000	– 84	143
35 000	– 100	70
40 000	– 141	– 43
50 000	– 174	– 82
75 000	– 280	– 201

Note 1 : Total income includes the Old Age Security Pension, the Guaranteed Income Supplement, if any, and private income, which consists of equal proportions of investment income and pension income.

Note 2 : The impact includes all changes to consumption taxes with the exception of tax adjustments applying to the tobacco and alcoholic beverages taxation system, and measures aimed at improving the fairness of the taxation system.

Note 3 : The minimum income of the couple 65 years of age or older with no children is greater than $ 15 000 in 1992.
n.a. means not applicable.

IMPACT OF REFORM OF CONSUMPTION TAXES

COUPLE WITH TWO CHILDREN UNDER 6 YEARS OF AGE
One work income
(when fully implemented, in 1992 dollars)

Household work income	Retail sales tax, telecommunications tax and tax on meals and hotels replaced by a broader sales tax at 7%				
		Measures to protect purchasing power			
	Additional sales tax	Refundable tax credit[1]	Other measures	Indexation of essential needs	Total impact
0	– 96	230	—	625	759
5 000	– 110	230	—	641	762
10 000	– 118	230	—	669	781
15 000	– 125	230	—	510	616
20 000	– 137	230	—	510	604
25 000	– 147	230	—	309	392
30 000	– 155	144	—	377	366
35 000	– 162	47	—	377	262
40 000	– 170	—	—	377	207
45 000	– 178	—	—	377	198
50 000	– 187	—	—	334	147
60 000	– 204	—	—	212	8
75 000	– 230	—	—	169	– 61

1 This compensation will take the form of additional benefits for households that are income security beneficiaries.

IMPACT OF REFORM OF CONSUMPTION TAXES

COUPLE WITH TWO CHILDREN UNDER 6 YEARS OF AGE
Two work incomes
(when fully implemented, in 1992 dollars)

Household work income	Retail sales tax, telecommunications tax and tax on meals and hotels replaced by a broader sales tax at 7%				
		Measures to protect purchasing power			
	Additional sales tax	Refundable tax credit[1]	Other measures	Indexation of essential needs	Total impact
0	– 62	230	—	625	793
5 000	– 69	230	—	695	856
10 000	– 74	230	—	748	904
15 000	– 76	230	—	806	959
20 000	– 80	230	—	856	1 006
25 000	– 82	230	—	676	823
30 000	– 93	230	—	674	812
35 000	– 98	230	—	277	409
40 000	– 107	151	—	484	529
45 000	– 114	56	—	485	426
50 000	– 123	—	—	485	362
60 000	– 139	—	—	442	303
75 000	– 168	—	—	261	92

1 This compensation will take the form of additional benefits for households that are income security beneficiaries.

IMPACT OF REFORM OF CONSUMPTION TAXES

SINGLE-PARENT FAMILY WITH ONE CHILD UNDER 6 YEARS OF AGE
(when fully implemented, in 1992 dollars)

Retail sales tax, telecommunications tax and tax on meals and hotels replaced by a broader sales tax at 7%

Household work income	Additional sales tax	Measures to protect purchasing power			Total impact
		Refundable tax credit[1]	Other measures	Indexation of essential needs	
0	– 107	180	—	423	496
5 000	– 124	180	—	522	579
10 000	– 130	180	—	589	640
15 000	– 142	180	—	560	598
20 000	– 159	180	—	401	422
25 000	– 176	153	—	287	263
30 000	– 191	58	—	291	157
35 000	– 202	—	—	291	88
40 000	– 213	—	—	291	78
45 000	– 225	—	—	291	66
50 000	– 237	—	—	167	– 70
60 000	– 261	—	—	151	– 111
75 000	– 292	—	—	151	– 141

1 This compensation will take the form of additional benefits for households that are income security beneficiaries.

IMPACT OF REFORM OF CONSUMPTION TAXES

SINGLE PERSON UNDER 65
(when fully implemented, in 1992 dollars)

Retail sales tax, telecommunications tax and tax on meals and hotels replaced by a broader sales tax at 7%

Household work income	Additional sales tax	Measures to protect purchasing power			Total impact
		Refundable tax credit[1]	Other measures	Indexation of essential needs	
0	– 68	140	—	272	344
5 000	– 82	140	19	319	397
10 000	– 91	140	44	61	154
15 000	– 120	84	80	61	104
20 000	– 146	—	80	61	– 5
25 000	– 164	—	80	85	1
30 000	– 178	—	80	85	– 13
35 000	– 192	—	21	59	– 113
40 000	– 206	—	—	59	– 147
45 000	– 220	—	—	59	– 161
50 000	– 233	—	—	59	– 174
60 000	– 258	—	—	59	– 199
75 000	– 288	—	—	59	– 229

1 This compensation will take the form of additional benefits for households that are income security beneficiaries.

IMPACT OF REFORM OF CONSUMPTION TAXES

CHILDLESS COUPLE UNDER 65 YEARS OF AGE
One work income
(when fully implemented, in 1992 dollars)

Retail sales tax, telecommunications tax and tax on meals and hotels replaced by a broader sales tax at 7%

Household work income	Additional sales tax	Measures to protect purchasing power			Total impact
		Refundable tax credit[1]	Other measures	Indexation of essential needs	
0	– 63	180	—	448	565
5 000	– 69	180	—	472	583
10 000	– 69	180	—	472	583
15 000	– 81	139	—	102	159
20 000	– 99	43	—	102	47
25 000	– 112	—	—	130	18
30 000	– 121	—	—	130	9
35 000	– 130	—	—	130	—
40 000	– 140	—	—	100	– 40
45 000	– 149	—	—	100	– 49
50 000	– 159	—	—	100	– 59
60 000	– 177	—	—	100	– 77
75 000	– 202	—	—	100	– 102

1 This compensation will take the form of additional benefits for households that are income security beneficiaries.

IMPACT OF REFORM OF CONSUMPTION TAXES

SINGLE PERSON 65 OR OVER
Pension and investment income
(when fully implemented, in 1992 dollars)

Retail sales tax, telecommunications tax and tax on meals and hotels replaced by a broader sales tax at 7%					
		Measures to protect purchasing power			
Total household income	Additional sales tax	Refundable tax credit[1]	Other measures	Indexation of essential needs	Total impact
15 000	– 119	140	—	79	100
20 000	– 136	76	—	85	26
25 000	– 153	—	—	85	– 68
30 000	– 169	—	—	85	– 84
35 000	– 184	—	—	85	– 100
40 000	– 200	—	—	59	– 141
45 000	– 216	—	—	59	– 157
50 000	– 233	—	—	59	– 174
60 000	– 273	—	—	59	– 214
75 000	– 339	—	—	59	– 280

1 This compensation will take the form of additional benefits for households that are income security beneficiaries.

IMPACT OF REFORM OF CONSUMPTION TAXES

CHILDLESS COUPLE 65 OR OVER
Pension and investment income
(when fully implemented, in 1992 dollars)

Retail sales tax, telecommunications tax and tax on meals and hotels replaced by a broader sales tax at 7%					
		Measures to protect purchasing power			
Total household income	Additional sales tax	Refundable tax credit[1]	Other measures	Indexation of essential needs	Total impact
16 200	– 114	180	—	20	86
17 500	– 119	180	—	20	81
20 000	– 130	180	—	72	122
25 000	– 144	180	—	120	156
30 000	– 157	180	—	120	143
35 000	– 171	111	—	130	70
40 000	– 185	11	—	130	– 43
45 000	– 198	—	—	130	– 68
50 000	– 212	—	—	130	– 82
60 000	– 243	—	—	100	– 143
75 000	– 301	—	—	100	– 201

1 This compensation will take the form of additional benefits for households that are income security beneficiaries.

4. Transition period: 1991

As a result of discussions with the federal government, the purpose of which was to reduce the complexity and the administrative costs of the taxation system, the administration of the GST will be entrusted to Québec. However, Québec will not take on this task until January 1, 1992. Moreover, the broadening of the tax base to cover services and real property, and the refunds to businesses of the amounts of sales tax paid on purchases made for commercial purposes are only possible under a unified administration.

Actually, even in 1991, consumers and businesses can be spared most of the problems related to the coexistence of the GST and the Québec consumption tax system. It is a matter of simplifying the interaction of the two systems, particularly for retail businesses. The following measures will therefore be applied as of January 1, 1991 :

— the Québec sales tax rate will be reduced from 9 % to 8 % ;

— the sales tax base will be generally broadened to include all movables taxed under the GST system, in particular, clothing, shoes and household appliances that are now exempt, furniture, soap and other cleaning products, and textiles ;

— the application of Québec consumption taxes in the food and restaurant sectors will be harmonized with the GST, in particular by adopting the same list of exempt and taxable foods and by integrating the tax on meals and hotels into the general Québec sales tax, which means the rate will be decreased from 10 % to 8 % and meals costing $3.25 or less will be taxable while hotel rooms will still be exempt ;

— the Québec sales tax will be extended to fuel and tobacco products, while the specific taxes on these products will be reduced by an equivalent amount ; the sole point of this measure is to simplify operations for the retail trade, and there will be no significant impact on the tax burden or the price of these products ;

— the refundable sales tax credit and the increase in income security scales will be granted for the 1991 taxation year in order to give low-income households immediate protection. Eligible elderly persons will receive prepayment of the income tax credit.

Section 7.2 (entitled "The transition period") provides additional information on the application of these and other technical measures during the 1991 transition period.

The changes will make it possible to significantly simplify the application of the federal and Québec consumption tax systems in the retail trade beginning in 1991. Virtually all products sold in department stores will be taxable under both the federal and Québec systems. The same holds true for restaurants, where both taxes will be applicable to all meals served. In the case of stores that sell both taxable goods and goods that are not subject to the GST, food stores and drugstores for instance, the Québec tax will be harmonized with the GST so that the same products will be taxable. Finally, retailers entitled to use a streamlined accounting method for the GST, convenience stores for example, will be able to use an equivalent method for the Québec sales tax, so that they will not have to determine the tax for each transaction entered on the cash register.

5. Financial impact for the government

Although most items of budgetary revenue will be affected by the measures announced, consumption taxes will undergo the greatest changes.

Revenue from the Québec sales tax will rise as a result of the integration of the tax on meals and hotels in 1991 and of the taxes on telecommunications and electronic advertising in 1992. The application of the sales tax to fuel and tobacco, to compensate for the reduction of the specific taxes on these products, will have the same effect. The impact on the Québec sales tax also includes most of the changes applicable to alcoholic beverages. The impact on the other consumption taxes is simply the converse of what has been described with respect to the sales tax. The net result of the reform will be to increase revenue from consumption taxes by $86 000 000 in 1990-1991 and $250 000 000 in 1991-1992, and to decrease revenue in 1992-1993 by $342 000 000. The impact in 1992-1993 reflects the drop in revenue generated by the fully implemented reform in 1992, while the increases in 1990-1991 and 1991-1992 are due to the fact that the broadening of the tax base in 1991 will not be entirely offset by reducing the tax rate to 8 %.

There are other effects on budgetary revenue. In 1992-1993, personal income tax will be reduced by $159 000 000 owing to the refundable sales tax credit and by $236 000 000 owing to the 4.5 % indexation of the taxation system and of family allowances. The increase in corporate income tax will bring in $436 000 000 in 1992-1993. The reform of the Québec sales tax and the increase in corporate income tax will have the opposite impact on the profits of Crown corporations, so that the net effect will be negligible. Transfer payments from the federal government will increase because of the rise in shared expenditure for social aid. The total impact on budgetary revenue will consist of a $92 000 000 increase in 1990-1991, a $323 000 000 increase in 1991-1992 and a $230 000 000 decrease in 1992-1993.

The measures will also affect budgetary expenditure in a variety of ways. Government purchases will be exempt as of 1992, so that expenditure for goods and services will drop by $60 000 000 in 1992-1993. The increase in corporate income taxes will push government expenditure for employers' contributions to the Health Services Fund up $50 000 000 in 1992-1993. The increase in the income security scales with respect to the Québec sales tax and the 4.5 % indexation of the EI and PWA programs will increase expenditure by $55 000 000 and $73 000 000 respectively. In all, the reform will involve an increase in budgetary expenditure of $15 000 000 in 1990-1991, $71 000 000 in 1991-1992 and $118 000 000 in 1992-1993.

The net impact on the government's financial framework may therefore be described in terms of net surpluses of $77 000 000 in 1990-1991 and $252 000 000 in 1991-1992, and a net deficit of $348 000 000 in 1992-1993. Overall, in these three fiscal years, the impact will be small: a $19 000 000 deficit resulting from an increase in revenue of $185 000 000 and a slightly higher rise in expenditure of $204 000 000. These amounts were provided for in the financial framework presented in the 1990-1991 Budget Speech last April. At that time, estimates of the financial impact of the reform were at a very advanced stage even though negotiations with the federal government on the administration of the GST by Québec had not yet been concluded.

FINANCIAL IMPACT OF REFORM OF CONSUMPTION TAXES (in millions of dollars)

	1990-1991	1991-1992	1992-1993	Total 1990-1991 to 1992-1993
BUDGETARY REVENUE				
Consumption taxes				
☐ Retail sales	324	1 362	791	2 477
☐ Fuel	– 92	– 423	– 344	– 859
☐ Tobacco	– 27	– 83	– 4	– 114
☐ Meals and hotels	– 114	– 543	– 582	– 1 239
☐ Telecommunications	– 5	– 60	– 188	– 253
☐ Electronic advertising		– 3	– 15	– 18
Subtotal	**86**	**250**	**– 342**	**– 6**
Duties and permits				
☐ Alcoholic beverages		3	12	15
Personal income tax				
☐ Refundable sales tax credit		– 21	– 159	– 180
☐ 4.5 % indexation of the taxation system and family allowances		– 54	– 236	– 290
Increase in corporate income taxes		**110**	**436**	**546**
Other effects on revenue				
☐ Profits of Crown corporations		1	– 1	—
☐ Revenue from federal transfer payments	6	34	60	100
Total impact on budgetary revenue	**92**	**323**	**– 230**	**185**
BUDGETARY EXPENDITURE				
Government expenditure for goods and services				
☐ Taxes paid on purchases	– 1	12	60	71
☐ Employers' contribution to the Health Services Fund		– 11	– 50	– 61
Income security programs				
☐ Income security vis-à-vis sales tax	– 14	– 54	– 55	– 123
☐ 4.5 % indexation		– 18	– 73	– 91
Total impact on budgetary expenditure	**– 15**	**– 71**	**– 118**	**– 204**
IMPACT OF MEASURES ANNOUNCED	**77**	**252**	**– 348**	**– 19**
Provisions already integrated into financial framework	**– 77**	**– 252**	**348**	**19**
Net change in financial framework	**—**	**—**	**—**	**—**

Note: A negative entry indicates a cost to the government.

6. Deadline for implementation

The implementation of the reform of consumption taxes will be carried out in two main stages : the first will be a transition period beginning on January 1, 1991, and the second will be the complete application of the reform and the transfer of the administration of the GST to the Québec government, beginning on January 1, 1992.

In order to implement the reform along these lines, a number of steps are required, the first of which is this Minister's Statement. Subsequently, in the fall of 1990, the government intends to table in the National Assembly a bill on the amendments applicable to the transition period from January 1 to December 31, 1991.

In addition, before the end of the year, the government intends to make known and hold consultations on the details of the measures encompassed by the completed reform, that is, the measures coming into effect on January 1, 1992. A bill outlining the terms and conditions of the fully implemented reform will be tabled in the National Assembly in the spring of 1991.

7. Additional Information on the Implementation of the Reform

7.1 The fully implemented reform

7.1.1 General statement

At present, the Québec retail sales tax applies primarily to the sale and lease of goods, other than real property, and to a number of services, in particular, lighting and telephone services. The federal manufacturers' tax is included in prices subject to the Québec sales tax.

As mentioned previously, the Québec sales tax will be lowered to 7 % beginning in 1992 and, like the GST, will apply to all purchases of goods and services. The selling price of these purchases will include the GST for the purposes of calculating the Québec sales tax. In addition, such purchases will include those made by businesses, with the exception of those made for the exclusive purposes of resale, including purchases of components of a movable intended for sale, given the constitutional limits of provincial taxation powers in regard to some of these purchases. This feature will differentiate the Québec sales tax from the GST and will mean that most of the purchases made by manufacturers, wholesalers and retailers will not be subject to the Québec sales tax.

The sales tax will be broadened so that only all taxable goods and services purchased by consumers will be taxed as under the GST system. Moreover, in most cases, under Québec's broader sales tax system, retailers will not be required to make a distinction between consumers and businesses that purchase their goods and services. The introduction of a refund mechanism for taxes paid by businesses will allow them to recover amounts they have paid with regard to certain purchases but would not have had to pay had the retailer been required to specify the status of the purchaser at the time of each sale.

Since, with regard to consumers, the Québec sales tax base will generally be harmonized with that of the GST to simplify its administration, most of the rules governing the operation of the Québec sales tax will be identical to those for the GST, except for those that have a direct impact on the distinctive features of the Québec system and are directly related to the provincial context.

The following sections briefly summarize the operation of the Québec sales tax after the implementation of the proposed reform, subject to adoption of the GST and any changes and precisions that might be made to it. The consultation document to be published before 1991 will provide further information on this subject as well as on the other elements of the fully implemented reform to be discussed later in this section.

7.1.2 Liability for tax

At present, for purposes of the Québec sales tax, the purchaser of a good is required to pay the tax and the vendor, as the government's agent, is responsible for collecting and remitting it to the government. If a good is brought into Québec for use or consumption, it is usually the person who brought it in who is responsible for paying the tax on its value unless it has already been collected by a person authorized to do so.

The reform of the Québec sales tax will not change the current system, which involves taxing the purchaser and requiring the vendor to collect the tax. In fact, this procedure has also been adopted under the GST, resulting in considerable similiarity between the two systems and extensive simplification of administration.

In general, the vendors required to collect the sales tax will be those who have been given a mandate to collect the GST, notably persons who carry on a business, or an adventure or concern in the nature of trade or persons whose activities involve the supply of real property.

As under the GST, adventures or concerns in the nature of trade will include, in particular, certain activities of non-profit organizations, governments and other public sector agencies. They will not include, in particular, the performance of any duty or activity in relation to an office or employment, activities carried out by an individual without a reasonable expectation of profit, or activities related to certain goods and services.

7.1.3 Broader Québec sales tax base

In accordance with the current provisions of the Québec sales tax system, a person must pay the tax when purchasing or leasing a taxable movable in Québec, including certain services, for purposes other than resale, lease or sub-lease exclusively. The sales tax also applies to movables brought into Québec for use or consumption. However, the sale of a large number of movables is tax exempt.

The Québec sales tax base will be broadened to cover the supply of movables, real property and services in Québec as well as goods brought into Québec for use or consumption and services used in Québec. It will be comparable to that of the GST, subject to certain characteristics inherent in the provincial context of the Québec system.

Supply of non-taxable goods and services

Under the GST, the supply of certain goods and services is zero-rated or tax exempt. The tax-exempt supply of goods and services refers to the supply of goods and services not covered by the GST but whose supply-related purchases do not give entitlement to the input tax credit for the GST paid on such purchases. In general, the input tax credit consists of a refund of the GST paid by a business on purchases used in the course of its commercial activities. This refund is usually in the form of a reduction in the amount of GST collected on sales to be remitted to the government. Tax-exempt supplies include, in particular, certain supplies of real property, most health services, educational services, day care services, personal care services, legal aid services, and financial services, and certain goods and services provided by public sector agencies and charities.

The zero-rated supply of goods and services refers to the supply of goods and services for which the GST rate is zero, but whose related purchases give entitlement to the input tax credit for the GST paid on such purchases.

The concept of zero-rated supplies under the GST originated primarily in the structure of the system, which is designed to tax the value added at each stage in the manufacturing and marketing process. It has therefore been provided that a zero rate of tax will be applied to the supply of certains goods such as prescription drugs and basic groceries so as to avoid taxing the value added throughout the manufacturing and marketing chain.

Following the reform of the Québec sales tax system, the purchase of goods and services for the exclusive purpose of resale and the purchase of components of a movable intended for sale will not be subject to the tax, no tax will be applied to such goods, including transactions preceding the sale of such goods to the consumer, as is the case under the present system. The concept of zero-rated supplies under the GST will therefore not have exactly the same meaning as under the Québec sales tax system. The result, however, will be the same ; that is, the zero-rated supply of goods and services under the GST will also be exempt from the Québec sales tax. In addition, the amounts of Québec sales tax paid on supply-related purchases of goods and services will be refunded to the person who furnishes the supplies.

With regard to the tax-exempt supply of goods and services, that is, the supply of goods and services that, under the GST, do not entitle the supplier to the input tax credit, the Québec tax system will be harmonized with the federal system. Thus, the tax-exempt supply of goods and services under the GST will also be tax exempt under the Québec system. Moreover, the sales tax paid with regard to goods and services used in making these supplies will not be refundable. However, the tax will not apply to goods and services purchased exclusively for resale or to the purchase of components of a movable intended for sale.

Supply of goods and services in Québec

Under the federal tax system, it is stipulated that the GST will apply to the supply of goods and services in Canada. To determine whether the goods and services are supplied in Canada, several assumptions have been adopted, including the following :

— in the case of the supply, by sale, of tangible personal property: in particular, when the property is delivered or made available in Canada to the purchaser;

— in the case of intangible personal property: when, for example, the property is meant to be used in Canada;

— in the case of real property or a service in respect of real property: when the property is situated in Canada;

— in the case of the supply of services: when a service is performed in whole or in part in Canada, except, for example, in the case of a telecommunications service or a prescribed service.

The assumptions used under the Québec tax system to determine whether goods and services are supplied in Québec will be the same as those used under the GST system. However, certain exceptions will be provided to take into account the provincial nature of the Québec sales tax system, in particular with respect to interprovincial transactions.

7.1.4 Timing of liability for tax

Under Québec's current sales tax system, it is provided that the tax apply at the time of sale, that is, generally the time when the contracting parties come to an agreement.

Under the GST, when taxable goods and services are supplied in Canada, it is provided that the tax be payable on the earlier of the following two dates:

— the date on which consideration for the taxable supply is paid;

— the date on which the consideration becomes due.

Moreover, the date on which consideration for a taxable supply becomes due is generally deemed to be the earlier of the following dates:

— the date of the invoice or the day on which the invoice is issued if earlier;

— the date on which the invoice would have been issued had it not been for an undue delay;

— the date on which the purchaser is required to pay, in whole or in part, consideration to the supplier as specified in a written agreement.

Provision has also been made for certain override rules to establish that the GST is payable on the last day of the month following the first month in which certain events occur, as, for example, in the case of the supply, by sale, of a tangible good, the transfer of ownership or possession of the good to the purchaser.

To make the unified administration of the GST and the Québec sales tax easier, the timing of liability for the Québec sales tax will generally be harmonized with that of the GST.

7.1.5 Refund of Québec sales tax paid on the purchase of goods and services used by a business

Currently, in Québec's sales tax system, businesses are subject to the tax when they purchase movables, excluding those purchased exclusively for resale, lease or subletting purposes. However, businesses may claim exemptions on purchases of certain goods. These include movables intended as components of a movable intended for sale, conditioning materials providing a movable intended for sale with specific qualities as well as production equipment used mainly in producing movables intended for sale.

The GST system generally provides no specific exemption for purchases by businesses. In accordance with the objectives of a tax system focusing on taxation of value added, the tax is collected on sales by businesses, which are entitled to an input tax credit for amounts of tax paid on all their purchases and on goods they import into Canada. This input tax credit applies to persons registered for purposes of the GST for goods and services acquired for use in their business activities. In addition, the input tax credit is available in full for the tax paid or payable for purchases made during the reporting period. These purchases include those that constitute inventory as well as those for fixed assets and other goods and services. In this way, inventories will be free of tax and, concerning fixed assets and other goods purchased, the input tax credits need not be amortized over the useful life of the business' assets.

In Québec's sales tax system, given that purchases of goods and services exclusively for resale, including those of components of a movable intended for sale, will not be taxable, unlike the GST system, businesses will not have to pay the tax on purchases of goods that constitute their inventory for resale purposes exclusively or of components of movables intended for sale. Concerning amounts of tax paid at the general rate of 7 % on other goods and services purchased for purposes of their business activities, they will be able to claim a refund of these amounts of tax. Like the GST, in Québec's sales tax system, the amounts of tax paid on purchases can be refunded from tax collected when taxable goods and services are supplied.

Rules concerning the extent of refunds, their administrative requirements, restrictions and application in certain circumstances will generally be harmonized with those of the GST input tax credits.

7.1.6 Documentation requirements

In the GST system, vendors must meet certain documentation requirements concerning the application of the tax. These requirements enable the tax system to operate efficiently both in regard to the collection of the GST and to the input tax credit mechanism.

In order to simplify compliance by agents of the GST and Québec's sales tax, the documentation requirements for purposes of compliance with Québec's sales tax will generally be harmonized with those applicable in the GST system.

7.1.7 Operational provisions

Reporting and remittance periods

The GST system specifies different reporting periods on the basis of the volume of supplies of the registrant. In general, a monthly reporting period will apply to registrants whose annual receipts from the taxable supply of goods and services exceed $6 000 000. The period will be quarterly or, optionally, monthly for those whose annual receipts are over $500 000 but less than $6 000 000. An annual or, optionally, quarterly or monthly period will apply when annual receipts are $500 000 or less. However, in the latter case, the registrant is generally required to make quarterly instalments when the net GST to be remitted for a reporting period is $1000 or more.

Registrants are also generally required to file their remittance reports no later than the last day of the month following the end of the reporting period except for those who elect to file an annual return.

In addition, a registrant may, subject to certain requirements, elect to file returns for each of its branches or divisions. However, to establish the amount of annual supplies of goods and services for purposes of the thresholds used to determine reporting periods, the calculation will be based on the registrant's total transactions rather than on those of each branch or division.

Given the unified administration of the GST and Québec's sales tax and in order to simplify compliance for suppliers, the operational provisions of Québec's sales tax will generally be harmonized with those of the GST system.

Small traders' threshold

The GST system provides for a small traders' threshold below which persons are not required to register to collect the GST on their supplies of goods and services. The threshold is $30 000 per annum from the supply of taxable and zero-rated goods and services. Traders may choose whether or not to avail themselves of the threshold, thus avoiding being penalized when they supply goods and services to businesses that may claim the input tax credit. Finally, the small traders' exemption will not apply to sales of real property.

Currently, Québec's sales tax system has no equivalent to the notion of small trader and the sale of goods is taxable regardless of the vendor.

Beginning in 1992, Québec's sales tax system will be harmonized with the GST system concerning the small traders' threshold for the supply of services only. Under Québec's sales tax system, the supply of goods will not give entitlement to the threshold. In addition, as in the GST system, the sale of real property and capital property will not be included for purposes of determining the threshold.

Streamlined accounting

The GST system allows certain registrants selling taxable items and zero-rated basic groceries at the retail level to elect to use streamlined accounting methods determined by regulation. Under these methods, cashiers will essentially not be required to identify the tax status of each article sold at the cash register. With these methods the GST must be included in the selling price.

Moreover, the federal government recently announced a quick GST calculation method for remittance purposes for certain businesses whose total annual sales do not exceed certain thresholds.

Under this method, a business will not have to determine the amounts of input tax credits for most of its purchases and its GST remittance will be based on a given percentage of total sales for a given reporting period.

As is indicated in the section on the transition period, streamlined accounting methods will also be offered under the Québec sales tax system beginning in 1991. However, the quick remittance method will be studied further to determine whether it can be used effectively in Québec's tax system beginning in 1992, given that purchases of goods made exclusively for resale purposes by retailers are not taxable under Québec's tax system.

7.1.8 Extent of Québec's sales tax base

It has previously been pointed out that Québec's sales tax will apply to all supplies of goods and services except purchases made exclusively for resale, leasing or re-leasing, as well as of components of movables destined for sale as is currently the case and that, in addition, the base will generally be harmonized with the GST base, taking the provincial context of Québec's sales tax into account.

The GST system provides that certain supplies of goods and services may be zero-rated or tax-exempt. The distinction between a zero-rated and a tax-exempt supply is that vendors can claim input tax credits in regard to the former, while that is not the case with tax-exempt supplies.

In Québec's sales tax system, tax-exempt and zero-rated supplies of goods and services under the GST system will be exempt and, when the supply is exempt under the GST system, the person supplying it will not be entitled to claim a refund of the Québec sales tax in regard to purchases of goods and services used for purposes of such supply.

Exempt supply of goods and services that may entitle the vendor to a refund of tax on purchases

In the GST system, zero-rated supplies of goods and services that entitle the vendor to an input tax credit include prescription drugs, medical devices, basic groceries and certain agricultural and fish products.

Québec's sales tax system will be harmonized with the GST system concerning zero-rated items. However, to simplify matters during the transition period, in regard to certain exemption categories, the tax base will be harmonized as of 1991.

— *Prescription drugs*

Currently, drugs prescribed by a physician are exempt from Québec sales tax.

The section on the transition period mentions that, beginning in 1991, the exemption on prescription drugs will generally be harmonized to cover the same goods as those that are zero-rated for purposes of the GST. Moreover, the purchase of drugs exclusively for resale will continue to be exempt under Québec's broadened sales tax system as is the case for other goods purchased for resale exclusively.

— *Medical devices*

At present, Québec's sales tax system generally provides that orthopedic devices, prostheses and goods designed to palliate a physical impairment or handicap are exempt from tax.

To simplify matters, in a manner similar to prescription drugs, starting in 1991, these exemptions will be harmonized with those of the GST system. Refer to the section on the transition period.

— *Basic groceries*

Québec's existing sales tax system already provides an exemption for groceries. This exemption is not identical to the exemption proposed in the GST system for the zero-rating of basic groceries.

In order to simplify matters, the exemption for groceries will, starting in 1991, be harmonized to cover the same food products as those zero-rated in the GST system. The exemption of basic groceries is also discussed in the section on the transition period.

— *Agricultural and fish products*

Currently, Québec's sales tax system provides for certain specific exemptions on purchases by farmers and fishermen. These include purchases of tools and farm implements, farm equipment and tractors as well as fishing nets, tackle and boats. These exemptions will be maintained during the transition period.

Beginning in 1992, Québec's sales tax system will be harmonized with the GST system concerning the zero-rated supply of certain agricultural and fish products. Farmers and fishermen will not be required to pay the tax when they purchase such goods.

In addition, concerning other taxable goods and services they acquire for business purposes, they will be able to claim a refund of the tax in a manner equivalent to the input tax credit applicable in the GST system.

Exempt supply of goods and services not entitling the vendor to a refund of tax on purchases

In the GST system, the tax-exempt supply of goods and services includes the supply of certain real property, the supply of most health, education, day care, personal care and legal aid services, certain goods and services of public sector agencies and most financial services. The tax treatment of real property and financial services is discussed under separate headings.

In general, the tax-exempt supply of goods and services in the GST system will also be exempt in Québec's sales tax system.

Moreover, persons who supply goods and services tax exempt under both the GST system and Québec's sales tax system will not be entitled to claim a tax refund for their purchases of goods and services relating to such supply.

Imports into Québec

As a general rule, the GST system provides that thetax will apply to goods imported into Canada on the duty-paid value, to which excise taxes and applicable excise duties are added when they are imported into Canada. However, in regard to services and intangible property imported into Canada, the tax is not applicable when they are imported exclusively for business purposes by a GST registrant. When goods or services are imported, whether by a registrant or a non-registrant, for other than exclusively business use, the tax will apply and the person must remit it on a self-assessment basis. Moreover, special rules will apply for certain direct mail imports and courier imports. Some imports, such as settlers' effects, will be zero-rated under the GST system.

Québec's existing sales tax system provides that a person who does business or normally resides in Québec and brings a good for use or consumption into Québec must pay tax on the value of the good. Québec's sales tax therefore covers all goods consumed in Québec, regardless of their origin.

Special rules will be introduced to protect the integrity of the Québec sales tax base. These rules will be based on the import rules instituted under the GST system and will take the provincial context of Québec's sales tax into account.

Exports from Québec

In general, exports of goods and services from Canada will be zero-rated for purposes of the GST so that exporters will enjoy an input tax credit, relieving these exports of all tax charges related to the GST.

Québec's sales tax system currently provides that the tax does not apply to goods sold in Québec when they are delivered outside Québec.

The approach taken in the GST system will be adapted to Québec's sales tax, reflecting the provincial context. All exports from Québec will be exempt and exporters will receive a refund of amounts of sales tax paid in regard to their purchases.

Moreover, as under the GST system, foreigners visiting Québec will be able to claim a refund of Québec sales tax on purchases of certain goods they take with them outside Québec, as well as of the tax charged on their lodging during their stay.

Non-residents of Québec

The GST system provides that non-residents will be required to charge and collect the tax on the supply in Canada of goods and services made in the course of carrying on a business, on the supply of certain real property situated in Canada as well as on certain performances in Canada.

For the purposes of Québec's sales tax, the approach taken in the GST system for non-residents will be adapted to non-residents of Québec, reflecting the provincial context of this sales tax.

Real property

Currently, sales and rentals of real property are not subject to Québec sales tax. However, sales of materials used to build real property are subject to the tax.

As a general rule, the GST system provides that sales or rentals of real property, i.e. land and buildings, are taxable. In addition, the rules applicable to supplies of other goods and services apply in a similar way to supplies of real property. For instance, building contractors must collect the GST on their sales of new buildings and land and can claim an input tax credit on their purchases of land, materials, equipment and services used in the course of their business. Moreover, certain registrants who purchase or rent real property in the course of their business can claim an input tax credit on the GST paid on such purchase or rental.

Québec will harmonize its sales tax system with the GST concerning the taxation of real property, with the exception of the purchase of real property for the sole purpose of resale. In that case, the Québec sales tax will not apply since the purchase is made exclusively for resale purposes.

Moreover, goods and services that are tax-exempt under the GST system will also be exempt from the Québec sales tax. This includes long-term residential rentals and the supply of ancillary services, short-term accommodation provided in a dwelling at a cost of $20 or less per day, sales of existing housing, sales of real property devoted to personal use prior to the moment of sale, transfers of farmland between members of the same family and condominium fees.

In addition, the special rules of the GST system applicable in certain circumstances to real property will be introduced into Québec's sales tax system. These rules deal particularly with the supply of real property by charities, non-profit organizations and certain other public sector organizations in respect of their supply of real property in competition with the business sector.

This will also apply to the special rules concerning self-supply of real property. For instance, when a developer builds a residential building for rental purposes, he can obtain a refund of tax paid on purchases of goods and services relating to the construction of the building. However, under the real property self-supply rules, the developer will have to remit the tax on the fair market value of the building.

Other rules that will be harmonized include those concerning the change of use of a real property and those concerning firms engaged in renovations to existing housing.

Transportation and travel

The GST system provides that the price paid by a person to utilize any mode of transportation in Canada is subject to tax, except in the case of municipal transit services. In addition, tolls paid for the use of bridges, roads and ferries will be exempt.

With respect to air transportation, it is generally provided that transborder air travel to the United States, except Hawaii, and the islands of Saint-Pierre and Miquelon is subject to tax, while international travel is not. Furthermore, in the case of a continuous journey including domestic and international transport services, the rules state that the transportation ticket is zero-rated. The GST system also provides that certain miscellaneous charges are generally taxed on the same basis as the ticket to which they are attached.

Taking the provincial context into account, Québec's tax system cannot be fully harmonized with the GST system concerning passenger transportation services. Special rules will be applied.

The GST system also provides that freight transportation services are subject to tax regardless of the mode of transportation. These services include those provided by common carriers, independent carriers and private carriers, as well as courier and postal services. In a manner similar to passenger transportation service, international freight transportation services will be zero-rated, the international transportation service generally being a service to or from a point outside Canada.

Taking the provincial context into account, special rules will be introduced for the taxation of freight transportation services.

Travel agents will be subject to the general rule concerning the agent's role. Their commissions will be subject to GST or zero-rated according to the export rules when the commission is received from a non-resident.

Tour operators are distinguished from travel agents by the fact that they purchase travel services for resale purposes. The treatment of their sales under the GST system is determined by the status of the travel services they purchase. GST is applicable to the consideration paid for an entirely domestic trip, while entirely foreign trips will be zero-rated. Special rules will apply for organized tours including taxable and zero-rated travel services.

The approaches adopted by the GST system concerning the taxation of travel services will be adapted to the provincial context of Québec's sales tax and clarifications will be forthcoming.

Financial services

In general, the rules of the GST system provide that the supply of financial services to consumers and businesses is exempt from tax. Persons supplying tax-exempt financial services and qualifying as financial institutions pay GST on their purchases without being entitled to input tax credits in regard to goods and services used to supply these financial services.

The supply of financial services to persons who do not reside in Canada is zero-rated when such financial services are used outside Canada. The financial institutions that provide such services can claim the input tax credit for purchases relating to such services.

To prevent some businesses from being considered financial firms, the GST system defines the notion of a financial institution. In particular, the GST system stipulates certain maximum thresholds for financial transactions that can constitute ancillary activities of a business for which it is not required to allocate inputs that would not be eligible for the input tax credit.

The approach taken by the GST system is designed not to tax financial services and it will be adopted by Québec's sales tax system, with the exception of currently taxable financial services, i.e. certain insurance premiums on which the existing tax will be maintained at the rates of the current system. However, additional studies will be undertaken on purchases of goods and services by financial institutions to determine the possible effects of their taxation on the competitiveness of these institutions on the Canadian market. Compensatory measures may be announced in light of the results of these studies.

7.1.9 Charities and non-profit organizations

The GST system provides specific rules to recognize the particular role these organizations play in Canadian society. More specifically, the federal technical documents stipulate a 50 % refund of tax paid on purchases destined for non-commercial purposes.

Moreover, most of their supplies of goods and services are not of a commercial nature and therefore are tax exempt. Only the supply of commercial goods and services remains subject to tax. However, these supplies will carry entitlement to an input tax credit concerning purchases relating to them.

Currently, Québec's sales tax system contains no particular provision concerning charities and non-profit organizations. Such organizations must pay sales tax on purchases of taxable goods and collect the sales tax on sales of taxable goods.

Québec's sales tax system will be harmonized with the GST system concerning charities and non-profit organizations. Among other things, these organizations will also be able to claim a 50 % refund of tax paid on purchases made for non-commercial purposes.

7.1.10 Treatment of the public sector

In Québec, the public sector comprises the Québec government, the federal government, and their respective agencies as well as municipalities and various other public agencies, namely, school administrations, colleges, universities and hospitals. Under the GST system, the special role played by public agencies has been taken into account by ensuring, on the one hand, that the GST does not affect the non-commercial activities of such agencies and, on the other, that the commercial supply of goods and services by these agencies does not create unfair competition with the private sector.

The GST system therefore provides that the commercial supply of goods and services by the various levels of government and public sector agencies will be subject to the GST.

The Québec sales tax system will be harmonized with the GST in regard to the taxation of the supply of certain goods and services by a government or a public sector agency.

In addition, with respect to purchases made by the various levels of government and public sector agencies, it is provided that, on account of its status, the Québec government will not be required to pay the GST on its purchases. With respect to other public agencies, namely universities, colleges, school administrations, municipalities and hospitals, it is stipulated that their tax burden will be held constant and that, for this purpose, they will be entitled to a partial refund of the GST.

The treatment of public agencies under the Québec sales tax system will be the same as that applied under the GST.

In this way, their tax burden will not be increased while, in addition, they will be entitled to a partial refund of the Québec sales tax. The tax burden of municipalities will be maintained at the same level within the framework of the reciprocal application of taxes, duties or tariffs by the government and the municipalities.

With regard to the tax treatment of the Québec government, it will be identical to that provided for in the GST system, with a view to administrative simplification. The sales tax will therefore not apply to its purchases. The tax treatment of the federal government in the Québec sales tax system will depend on discussions now under way, since it has chosen to be taxed under the GST system.

7.1.11 Other aspects

In addition to certain operational features already mentioned, the GST will include several special rules. These rules will apply, for example, to the treatment of partner and employee expenses, bad debts and pay telephone charges. In general, the Québec sales tax system will be harmonized in these areas with the GST.

7.1.12 Revision of specific taxes and duties

Taxation of fuel

Under the reform, it is provided that the Québec sales tax will be broadened to cover fuel sales. As of January 1, 1992, the fuel tax will be revised to keep prices generally constant and take into account the reduction in the provincial sales tax from 8 % to 7 %.

Subjecting fuel sales to the Québec sales tax inevitably implies that all of the provisions of the Québec sales tax system will be applicable to the sale of such products. As in the case of other goods, the sales tax paid on fuel purchases by businesses will, beginning on January 1, 1992, generally be subject to a refund if the fuel is used exclusively for the purposes of these businesses. For purposes of standardization and simplification, and given that businesses will be entitled to the fuel sales tax refund, the fuel tax rate applicable to the sale of fuel oil will be the same as that applicable to the sale of gasoline as of January 1, 1992. The following table shows the fuel tax rates that will apply beginning on January 1, 1992.

FUEL TAX
(¢ per litre)

	Current rate	Rate on January 1, 1992
□ Gasoline	14.40	10.5
□ Fuel oil	12.45	10.5
□ Propane gas	8.25	5.6

In addition, the current fuel tax reductions for peripheral regions and certain other regions of Québec will be adjusted to take into account their effects on the level of the sales tax applicable at the time of the retail sale. However, overall the value of the reductions of 4.8 cents per litre of gasoline in peripheral regions, of 2.4 cents per litre in specified regions and of from 0.18 cents to 4.8 cents per litre in border regions and regions contiguous with peripheral regions or specified regions will be maintained at these levels.

At present, public transport agencies and businesses are entitled, for most of their transportation services, to a refund of part of the tax on fuel used to provide such services. This refund takes into account the tax reductions applicable in certain regions of Québec and is equal to the portion of the paid tax that exceeds two-thirds of the regular tax amount. Taxi firms and their employees that pay the cost of the fuel used to provide transportation services enjoy similar treatment in the form of an income tax credit.

Given the reduction in the fuel tax and considering that businesses as a whole will be entitled to a refund of all the Québec sales tax paid on fuel used for the purposes of their business and that the tax burden of public transport agencies will remain generallly constant, the public transport tax refund and the taxi income tax credit will be abolished in 1992.

Taxation of tobacco products

In the section entitled "The transition period", it is specified that the Québec sales tax will be broadened to include tobacco products on January 1, 1991 and that the tobacco tax rate will consequently be reduced to avoid an excessive increase at that time in the tax charge related to such products, considering the tobacco tax increase announced in the 1990-1991 Budget Speech.

In 1992, the tobacco tax rate will be lower than the rate anticipated under the current system as at January 1, 1991. However, given the reduction in the Québec sales tax from 8 % to 7 %, the rate set on January 1, 1992 will result in a rise in tobacco prices representing 1 cent per cigarette. The following table shows the new tax rates that will apply as of January 1, 1992.

TOBACCO TAX

	Anticipated rate under current system on January 1, 1991	Rate on January 1, 1992
☐ Cigarettes (¢ per cigarette)	6.12	5.88
☐ Loose tobacco (¢ per gram)	2.80	2.42
☐ Other tobacco (¢ per gram)	8.07	6.85
☐ Cigars (% of selling price)	85	73

In addition, to keep the contribution used to finance the Olympic deficit at the same level, the rate of this contribution will be raised to 13.895 % of the tax collected as of 1992.

Taxation of alcoholic beverages

The taxation of alcoholic beverages varies according to where such beverages are consumed. When they are sold for consumption in an establishment, such beverages are subject to a specific volume-based duty and a general ad valorem duty whose rate is usually equal to that of the sales tax. In addition, sales of alcoholic beverages for consumption in places other than an establishment are subject to the general sales tax and to a specific tax equal to the specific duty.

In the section entitled "The transition period", it is stipulated in particular that the specific duties and taxes will be revised upward on January 1, 1991 to keep the tax charge applicable to these products constant given the reduction in the Québec sales tax and the general duty from 9 % to 8 %.

Like the sales tax, the general duty will be lowered to 7 % on January 1, 1992. However, the specific tax and duty will be raised, leading to a concomitant increase of 4 cents per litre of beer and 8 cents per litre for other alcoholic beverages.

Taxation on telecommunications

Under the Telecommunications Tax Act, telecommunications sent or received in Québec and the rent for the use of a telecommunications service are subject to a tax of 9 %. It is provided that, during the transition period from January 1 to December 31, 1991, the tax will be lowered from 9 % to 8 %. On January 1, 1992, the telecommunications tax will be integrated into the Québec sales tax, whose rate will be 7 % as of that date.

Taxation of electronic advertising

Under the Broadcast Advertising Tax Act, a 2 % tax is currently imposed on the price of air-time for the broadcast of an advertisement by a radio or television broadcasting station or a cable-delivery station in Québec. On January 1, 1992, in view of the broadening of the Québec sales tax base to cover various services, this tax will be integrated into the Québec sales tax, whose rate will be 7 % as of that date.

7.2 The transition period

It has been pointed out that the reform of the Québec sales tax as of January 1, 1992 is in keeping with the approach adopted by the federal government for the GST, which is designed to extend consumption taxes to practically all goods and services. While the tax base will be broadened, the applicable tax rate will be reduced to 7 %. Meanwhile, since the GST will be effective as of January 1, 1991, Québec's sales tax base will be harmonized with it, as regards the retail sale of movable goods, subject to the adoption of the GST and the changes and precisions that may be made in it, mainly in order to simplify administration. At the same time, the sales tax rate will be reduced from 9 % to 8 %. Retailers will thus have a much simpler task as of 1991. The simplification process will be completed in 1992 when the reform is fully implemented and the Québec government takes over the administration of the GST.

The amendments applicable as of January 1, 1991 will take the form mainly of changes to or the elimination of various exemptions under the current Québec sales tax system and the integration of the tax on meals and hotels into that system. The application of the Québec sales tax, reduced to 8 %, to all movables, including meals and prepared foods, will also entail changes to the taxation of goods such as tobacco and alcoholic beverages in order to maintain their prices generally as well as the anticipated level of the tax charge on them. Details of the changes required are given in the following sections.

7.2.1 Québec sales tax

Reduction of the general sales tax rate

The general sales tax rate applicable in Québec to taxable movable goods, certain services and various insurance premiums is 9 %. The rate applicable to automobile insurance premiums is 5 %.

In order to take into account the broadening of the Québec sales tax base, the general 9 % rate applicable to a taxable movable good or a taxable service is reduced to 8 %. The tax rates applicable to insurance premiums remain unchanged.

The new 8 % tax will apply to sales and rentals made after December 31, 1990 and to rental payments for movable goods after that time. Moreover, the new rate will be applied to goods used in Québec after December 31, 1990 in situations where the rules governing goods brought into Québec and a change in the use made of a good apply. Finally, specific rules will be set out for continuous supplies.

Amendments to the sales tax base

As of January 1, 1991, the GST will be applied to a great many goods and services. Québec's sales tax base will be amended with respect to the retail sale of movable goods in order to bring it into line with the GST and substantially reduce the complexity for merchants of the administration of the two systems.

— *Amendment and elimination of exemptions*

– ***Sales of $0.25 or less***

At present, sales of $0.25 or less are exempt from the tax.

As of 1991, this exemption will be removed.

– ***Sales of trees, shrubs and other plants***

The sale of trees, shrubs and other plants is not now taxable when these goods are acquired for cultivation for subsequent sale as part of a business or when they are used for reforestation or to obtain products for human consumption.

In 1991, this exemption will be maintained in the first two cases described above. However, in the third case, the exemption will be maintained only when such goods are acquired in the course of carrying on a business that cultivates such products for human consumption.

– ***Sales of bulbs, seeds, fertilizers, insecticides, fungicides and herbicides***

The sales tax is currently not applied to some sales of bulbs or to the sale of seeds, fertilizers, insecticides, fungicides or herbicides.

As of 1991, the exemption will apply only to such goods purchased by a person whose business consists in cultivating the soil or raising livestock and used for the purpose of his business.

– ***Sales of grain, mill feed, hay, silage and other fodder crops***

The sale of grain and mill feed is currently exempt from the sales tax. This is also true for hay, silage and other fodder crops.

Under the GST system, the following goods will be exempt :

- grain, hay, silage and other fodder crops bought in greater quantities than are usually sold or offered for sale to consumers, and usually used as or to produce food for human or animal consumption, except grain or grain mixtures that are packaged, prepared or sold for use as feed for wild birds or as pet food ;
- hops, barley, flax seed, straw, sugar cane and sugar beets.

At present, these goods that will be zero-rated under the GST are exempt from the Québec sales tax. This will continue to be the case in 1991.

– ***Sales of horses***

Currently, there is no tax on sales of horses, regardless of the use to which they are put.

In 1991, this exemption will apply only to horses bought for use as part of a business.

– ***Sales of gold or silver bullion***

Currently, sales of gold or silver bullion exclusively for purposes of speculation are not taxable.

As of 1991, this exemption will be amended in the interests of harmonization with the precious metals exemption under the GST. Sales of at least 99.5 % pure gold or platinum bars, ingots, coins or wafers and at least 99.9 % pure silver bars, ingots, coins or wafers will not be taxable.

– ***Sales of tobacco***

Currently, the Québec sales tax does not apply to any kind of tobacco.

As of 1991, the Québec sales tax will be applied to the retail sale of tobacco, on the basis of price, including the tax required under the Tobacco Tax Act and the GST. However, in order to maintain the tax charge applicable to tobacco products at present, the rate of the tobacco tax will be reduced. The amendments to this tax will be dealt with in this section, under the heading "Taxation of tobacco products".

– ***Sales of fuel***

Currently, the Québec sales tax is not applied to sales of fuel, particularly gas and fuel oil, which are subject to the Fuel Tax Act.

As of 1991, the Québec sales tax will be applied to retail sales of all fuels, and calculated on the basis of the sales price, including the tax levied under the Fuel Tax Act and the GST. However, in order to maintain price levels, the rate of the fuel tax will be reduced. The amendments to this tax are dealt with in this section, under the heading "Taxation of fuels".

Also, the exemptions and tax refunds provided for in the Fuel Tax Act for the use of certain fuels used to run a propulsion engine will be incorporated into Québec's sales tax system. For example, a farmer will be able to obtain a refund of the Québec sales tax paid for gasoline used to fuel farm machinery.

– ***Sales of furniture for residential dwellings***

At present, sales of furniture for residential dwellings are exempt from tax. These furnishings include the furniture usually found in a home, plus garden furnishings, excluding appliances that run on electricity, gas or oil, other than a refrigerator or a kitchen range, floor coverings and rugs, blinds, and decorative and recreational objects.

As of 1991, this exemption will no longer apply.

– ***Sales of clothing, shoes and textiles***

At present, sales of clothing the unit price of which is $500 or less, except protective clothing used in a sports activity, and sales of shoes the price of which is $125 or less are exempt from the Québec sales tax. Household linen, woven and knitted fabric, natural or synthetic thread and yarn for embroidery, sewing, weaving and knitting, curtains and drapes are also exempt.

As of 1991, this exemption will be eliminated.

– ***Sales of groceries***

The sales tax is not applied to groceries, vitamins, decoctions or the vegetable substances used in preparing them, cider, blueberry-based alcoholic beverages, or beer sold in a tavern. However, candies, except maple sugar and maple taffy, soft drinks, beer and alcoholic beverages, which are not subject to the tax on meals, and various pet foods are taxable.

As of 1991, these exemptions will be amended so that the exemptions applicable to food and beverages sold for human consumption will be the same under the Québec sales tax system as under the GST, as described in Part III of Schedule VI of the Excise Tax Act. This harmonization will require the integration of the Québec meals and hotels tax into the Québec sales tax, which will be dealt with in this section, under the heading "Tax on meals and hotels".

Although the Québec sales tax will not apply to the sale of basic groceries, that is, to the sale of most foods bought for preparation and consumption at home, various products bought for home consumption will be taxable, such as soft drinks, candies, confectionery and snack foods.

In keeping with the GST system, the sales tax on the following goods will be payable at the time of sale, regardless of the nature of the sales outlet : heated food and beverages, prepared salads, sandwiches and similar products, platters of prepared food, ice cream and similar products sold in individual portions served at the point of sale, and various baked goods, depending on the amount sold. The same will apply to yogurt, puddings and beverages packaged in individual servings, other than unflavoured milk.

In addition, food and beverages sold in a form suitable for immediate consumption in an establishment at which all or substantially all of the sales of food or beverages are taxable will, in general, be subject to the sales tax.

The Québec sales tax will not apply to the sale of food for animals, although food for wild birds and household pets will be taxable unless, in the latter case, the food is purchased by a person who, as part of a business, raises or keeps such pets for sale.

Finally, amendments to the tax on alcoholic beverages are dealt with in this section, under the heading "Taxation of alcoholic beverages".

– ***Sales of drugs***

At present, the sales tax does not apply to sales of drugs prescribed by a physician, or to drugs bought by an establishment within the meaning of the Act respecting health services and social services (hospitals, CLSCs, etc.).

In 1991, this exemption will be applied as follows :

- sales of drugs for human consumption prescribed by a physician, and sales of drugs to an establishment within the meaning of the Act respecting health services and social services will still be exempt ;

- in keeping with the GST, the sale of the following drugs will be exempt even if they are obtained without a prescription: Digoxin, Digitoxin, Prenylamine, Deslanoside, Erythrityl tetranitrate, Isosorbide dinitrate, Nitroglycerine, Quinidine and its salts, medical oxygen and Epinephrine and its salts ;

- sales of drugs for animal use will be exempt only if the drug is dispensed, under a prescription from a veterinarian, for an animal used for business purposes, or when the purchaser uses such drugs for business purposes.

– ***Sales of goods to alleviate a physical deficiency and of certain medical devices***

At present, a wide variety of goods designed to alleviate a physical impairment are exempt from the sales tax: protheses and orthopedic devices, ophthalmic lenses and their frames, optical readers used by blind persons, mechanical lifts, equipment used to administer oxygen, syringes and needles used to inject insulin, equipment used to determine the amount of glucose in the blood, automobiles that have been modified to enable handicapped people to drive them, seeing-eye dogs, talking books or their medium purchased by a person because of a visual impairment and anything used to palliate a physical deficiency or handicap.

As of 1991, these exemptions will be harmonized with those provided for under the GST system. The sales tax will no longer apply to the sale or lease of the medical devices stipulated in Part II of Schedule VI of the Excise Tax Act, which include many of the goods covered by present exemptions.

Similarly, medical or surgical devices or equipment leased to a patient or resident of a health establishment and used in that establishment will be exempt from the Québec sales tax, as will the leasing of medical devices or equipment to a consumer by a health establishment, according to a physician's prescription, and the sale or lease of goods whose cost is paid for or refunded by a provincial government under a health services insurance plan set up under a provincial law.

The current exemption enabling a person who provides non-profit transportation for people who have lost the use of their legs to obtain a refund of the Québec sales tax paid on the purchase of a motor vehicle designed or modified for the purpose of such transportation will be maintained until December 31, 1991.

– ***Elimination of various exemptions***

Québec's sales tax currently does not apply to sales of the movables mentioned below. To make Québec's sales tax base comparable to that of the GST concerning these movables, these exemptions will be eliminated.

As of 1991, sales of the following items will be taxable:

- printed books and their updates;
- periodicals (magazines, reviews, etc.), unless sold by subscription;
- newspapers;
- classroom supplies;
- soaps and other cleaning products;
- wood for heating;
- ice;
- tampons and sanitary napkins;
- infant and child restraint systems for use in motor vehicles.

– ***Sales of advertising inserts***

Currently, Québec's sales tax does not apply to sales of advertising inserts, i.e. sales of printed advertising distributed with a newspaper or periodical.

This exemption will be maintained in 1991. Sales of advertising inserts will continue to be exempt, whether distributed with a newspaper or a periodical.

Changes in certain operational aspects

— *Returnable containers*

At present, when a consumer purchases a taxable movable in a returnable container, for instance beer or soft drinks, Québec sales tax does not apply to the amount paid by the consumer for the returnable container.

Beginning in 1991, this rule will be harmonized, subject to any adaptations required, given Québec's specific features, with the rule in the GST system to avoid a compliance problem for transactions involving returnable containers.

— *Discount coupons, gift certificates and manufacturer's cash rebates*

Québec's sales tax applies as follows to sales in which the consumer remits a discount coupon or a gift certificate to a retailer or benefits from a manufacturer's cash rebate:

- retailer's coupon: the sales tax is calculated on the net sale amount, after deducting the value of the coupon;
- manufacturer's coupon, money coupon*, gift certificate or manufacturer's cash rebate: the sales tax is calculated on the gross amount of the sale, without deducting the value of the coupon, gift certificate or cash rebate.

These rules will be harmonized, subject to changes which could be necessary given Québec's special features, with those of the GST system to simplify the task of vendors as collection agents.

— *Cash discounts*

Generally, a discount reduces the selling price on which the sales tax is currently calculated. In the GST system, cash discounts are considered only if the amount invoiced by a supplier is net of any discount. Otherwise, the discount will not reduce the GST base.

To avoid taxing business inputs more heavily in 1991, the current application of the sales tax with respect to cash discounts will be maintained, without harmonization with the rule in the GST system.

— *Calculation of the tax with a rounding factor*

Currently, a fraction of an amount of tax of $0.01 must be counted as a whole $0.01 on a transaction-by-transaction basis.

To facilitate the calculation of the Québec sales tax at the cash register, this rule will be harmonized with the rule of the GST system.

* A money coupon is a coupon given at the time of initial sale, calculated on a certain percentage of the value of goods purchased and redeemed at the time of a subsequent purchase.

— Indication of the sales tax on the sales slip

Currently, the amount of the sales tax must be indicated separately from the selling price on the sales slip.

In the GST system, the supplier may elect to show the GST separately from the consideration on the invoice, receipt, etc., or to indicate on these records that the amount paid by the purchaser includes the GST.

Beginning in 1991, the same option will be offered the vendor concerning the indication of the Québec sales tax. Therefore, a vendor may continue to indicate the amounts of the Québec sales tax and the GST separately to make it easier for his customers to apply for input tax credits or tax refunds. A vendor may choose to show the amount of the sales tax separately using procedures that simplify the indication with the amount of the GST. In addition, he may indicate on the sales slip that the selling price includes the Québec sales tax. This option will simplify compliance for the vendor and allow him to use, if he wishes, one of the streamlined accounting methods available when a person sells taxable goods and zero-rated basic groceries.

Modification or elimination of certain exemptions — transitional provisions

The modification or elimination of certain exemptions will minimize the compliance problems that would otherwise have resulted from the application of two consumption taxes at the retail level with the introduction of the GST.

To promote the integration of the two consumption taxes, certain GST transitional provisions proposed concerning transactions straddling January 1, 1991 will be introduced in Québec's sales tax system so that it applies to the same transactions as under the GST.

The following transitional provisions will apply when the sale or rental of a movable becomes taxable in 1991 (newly taxable movable) because of the announced modifications or elimination of exemptions.

— General rule

In general, the sale or rental of a newly taxable movable will be subject to the Québec sales tax if it is invoiced and paid for after 1990.

— Exceptions concerning the sale of a good

1. The sale of a newly taxable movable is also subject to sales tax if it is invoiced or paid for after August 1990 and before 1991, and if delivery and transfer of ownership occur after 1990.

2. The sale of a newly taxable movable is not subject to sales tax if it is invoiced or paid for before May 1, 1991, and if delivery or transfer of ownership occurs before 1991.

— Exceptions concerning the rental of a good

1. The rental of a newly taxable movable is also subject to sales tax if the rent is invoiced or paid after August 1990 and before 1991, and if the rent is attributable to a period after 1990.

2. The rental of a newly taxable movable is not subject to the sales tax if:

   (a) the rent is invoiced or paid before May 1, 1991, and if the rent is attributable to a period before 1991;

   (b) the rent is paid for a good that is a capital asset for the vendor, and if the contract is signed before midnight prior to the day of the Minister's Statement with no changes or renewal since that time.

In addition, the Québec sales tax will apply to all payments made after 1990 for newspaper subscriptions.

Finally, for purposes of application of the transitional provisions, the same rules as those in the GST concerning liability for consideration and when the tax payable will apply.

Calculation of the Québec sales tax to be remitted — use of streamlined accounting methods

In the GST system, streamlined accounting methods to be determined by regulation will enable persons who sell taxable products and zero-rated basic groceries at the retail level to calculate the amount of the GST to be remitted to the government for a given reporting period. These methods, which are explained in the August 1989 federal technical paper, are based on the option of completing sales without separate indication of the GST and make it possible to avoid having to identify the GST tax status of each item at the cash register.

Starting in 1991, the Québec sales tax to be remitted to the Québec Minister of Revenue may be calculated using one of these streamlined accounting methods, that will be adapted to reflect specific situations in Québec, under conditions identical to those in the GST system. This measure will make the collection mandate of small businesses in the food sector easier to carry out.

Sales tax related to the refunded GST

It was announced in the 1990-1991 Budget Speech that those receiving GST credits or refunds after the GST system is implemented in January 1, 1991 will be unable to claim the amounts of the related consumption tax because of major administrative constraints and the high costs involved.

It was therefore announced at that time that the same would apply to federal sales tax refunds related to inventories on hand on which consumption taxes were levied as at December 31, 1990.

However, beginning in 1992, businesses entitled to a full refund of the Québec sales tax paid on the goods and services purchased for use in their commercial activities will thereby be entitled to a refund of the Québec sales tax related to the GST included in the purchase price of those goods and services.

The same will apply to non-profit organizations, charitable organizations, hospitals, school administrations, colleges, universities and municipalities, which will receive a partial refund of the Québec sales tax they have paid.

7.2.2 Tax on meals and hotels

As indicated in the section entitled "Québec sales tax", the exemptions applicable in the sales tax system to the sale of food or beverages for human consumption will be identical to those provided for in the GST system.

To achieve this, and since the exemptions in the GST system are not based mainly on the nature of the establishment in which food and beverages are sold, the meal tax must be integrated into the Québec sales tax beginning in 1991. The following are the main effects this will have on the restaurant services sector:

- the 10 % meal tax will be replaced by the Québec sales tax at the rate of 8 %. Therefore, beginning in 1991, meals and alcoholic beverages purchased will be subject to this tax ;

- the present exemption for meals costing $3.25 or less will be eliminated. There is no exemption in the GST system for meals sold at these prices ;

- the present exemptions related to the nature of the establishment will be replaced by those in the GST system. The meal tax does not now apply to meals served in an establishment where accommodation, or both room and board, is usually paid for by the week or the month, or in an educational or charitable institution, a hospital or a shelter, or another similar institution. As of 1991, the Québec sales tax will not apply to certain foods, beverages or meals sold by a charitable or non-profit organization, a school administration, a college, a university or a health establishment under the same conditions as those provided for in the GST system ;

- the present rule regarding the taxation of service charges will be replaced by that in the GST system. The meal tax does not now apply to service charges, which are indicated separately on the bill and are remitted to the employee ;

- the current exemption that applies when the value of a meal is included in the price of accommodation will be maintained. In 1991, the Québec sales tax will not apply to the price of short-term accommodation, such as a hotel or motel room. The present exemption will be integrated into the Québec sales tax system for 1991 only so that there need be no breakdown of the overall price of room and board on the American plan ;

- a number of exemptions not in the GST system will be eliminated, particularly those related to meals provided for the employees of an establishment, and the sale of beer and light cider in a tavern ;

- the maximum annual compensation of $100 will be eliminated.

However, the integration of the meal tax into the Québec sales tax will not give this category of business the right notably to the exemption on production equipment provided for in this system.

7.2.3 Tax on telecommunications

Reduction in the rate of the telecommunications tax

The telecommunications tax is now 9 %. To take into account the broadening of the Québec sales tax base, the rate will be reduced to 8 % for telecommunications sent or received after 1990 and for rents for a leasing period after that date. Furthermore, as announced in the 1990-1991 Budget Speech, the GST will be included in the price on which the telecommunications tax is calculated.

7.2.4 Taxation of alcoholic beverages

Overview

At present, alcoholic beverages are taxed on the basis of where they are sold. Sales of alcoholic beverages for consumption in an establishment as understood in the Meals and Hotels Tax Act are subject to retailer duties on alcoholic beverages as well as the meals tax. In addition, since the 1990-1991 Budget Speech, retailer duties have consisted of specific duties based on volume and an existing ad valorem duty of 9 % or 13.4 % for the holder of a tavern permit. When alcoholic beverages are sold for consumption outside an establishment as understood in the Meals and Hotels Tax Act, they are subject to the Québec sales tax. In a manner comparable to alcoholic beverage retailers duties, the Québec sales tax is applicable at the general rate of 9 % and, since the 1990-1991 Budget Speech, specific taxes based on volume have also been applicable.

Beginning January 1, 1991, taxation of alcoholic beverages will be changed to reflect the reduction of the Québec sales tax rate from 9 % to 8 % and of the 9 % and 13.4 % rates to 8 % for alcoholic beverage retailers duties. To maintain a constant tax charge on alcoholic beverages given the reduction in the ad valorem rates, the specific sales taxes and specific retailer duties will be adjusted accordingly.

Taxation of alcoholic beverages sold for consumption outside establishments

The new general rate of 8 % of the Québec sales tax will apply to sales of alcoholic beverages for consumption outside an establishment. In addition, the specific sales tax of 0.015 cents per millilitre of beer will be increased to 0.018 cents per millilitre while the specific tax of 0.03 cents per millilitre of other alcoholic beverages will be raised to 0.039 cents.

The new rates will apply to sales made after 1990.

— Cider and blueberry-based alcoholic beverages

The sales tax exemptions for certain ciders and blueberry-based alcoholic beverages will be eliminated as of 1991 since these exemptions are not included in the GST system.

— *Application of the general tax*

The Québec sales tax will continue to apply to the sale of alcoholic beverages, and to be calculated according to the price, including the specific tax and the GST. However, the taxation of beer and other alcoholic beverages sold in grocery stores will be based on the effective retail price increased by the amount of the specific tax and the amount of the GST rather than on the average retail price set by the Minister of Revenue for the sale of beer and the suggested retail price for other beverages as is currently the case.

— *Collection of sales taxes*

The system of advance collection of the Québec sales tax and the specific tax on beer and other alcoholic beverages sold in grocery stores will be changed. Beginning in 1991, the sales tax will be collected in the same way as under the GST system. However, only the advance collection of the specific tax will be continued. Retailers will have to collect and remit to the Minister of Revenue the sales tax to be collected on the sale of such products. However, given the distinct advantage of the advance collection of the tax with regard to these products, the federal government will be approached with the proposal that it consider adopting this practice with the GST by extending it to fuels and tobacco products.

— *Inventories*

Retailers and wholesalers who have in stock, on January 1, 1991, alcoholic beverages for sale and consumption outside an establishment and on which the Québec sales tax has been collected in advance may claim a refund, using the form provided by the Minister of Revenue for this purpose. They will have to reduce the claim by the amount of the specific tax payable as a result of the tax increase applicable in 1991.

Taxation of alcoholic beverages sold for consumption in an establishment

Currently, alcoholic beverages sold for consumption in an establishment are subject to the 10 % meals tax and to the specific and ad valorem duties on retailers of alcoholic beverages payable by the operator of the establishment.

Starting in 1991, sales of these beverages will be subject to the Québec sales tax at 8 % since the tax on meals will be integrated into the Québec sales tax.

In addition, the rates of retailer duties of 9 % and 13.4 % for a holder of a tavern permit will be replaced by a single rate of 8 %. Furthermore, to maintain a constant tax charge on alcoholic beverages, the specific retailer duties of 0.015 cents per millilitre of beer will be increased to 0.018 cents per millilitre while the specific duty of 0.03 cents per millilitre of other alcoholic beverages will be raised to 0.039 cents.

The new ad valorem rates and specific amounts will apply to purchases of alcoholic beverages by a retailer made after 1990. In the case where a retailer makes the alcoholic beverages, i.e. the holder of a small-scale production permit, the timing of liability for tax will be maintained in his regard and the new rates and amounts will apply to beverages sold for consumption in the establishment after 1990.

— *Application of the retailer's duty*

The ad valorem duty on retailers of alcoholic beverages will continue to be included in the specific duties and will include the GST.

In addition, in the case of beer purchased by a retailer, the retailer's duty will be established on the basis of the supplier's real selling price increased by the specific duty and the GST rather than on the average retail price.

Furthermore, exemptions from the ad valorem retailer's duty applicable on the purchase of certain ciders and blueberry-based alcoholic beverages will be eliminated as of 1991 since these exemptions are not included in the GST system.

— *Inventories*

The increase in the specific retailer's duty will not apply to alcoholic beverages retailers have in stock on January 1, 1991.

— *Taxation of beer and cider in taverns*

At present, the meals tax is not imposed on the price of beer and light cider served in taverns. As of 1991, these products will be subject to the Québec sales tax since no exemption is included in the GST system and the meals tax will be integrated into the sales tax.

7.2.5 Taxation of fuels

In a manner comparable to the approach taken in the GST system, starting January 1, 1991, the application of the Québec sales tax will be extended to the sale of all fuels, including natural gas sold as fuel. However, to maintain the same general price levels for these products after the reform as before, the fuel tax will be reduced accordingly, with the exception of railroad locomotive and aircraft fuels. The following table shows the new fuel tax rates applicable as of January 1, 1991.

FUEL TAXES
(Cents per litre)

	Current rates	Rates as of January 1, 1991
□ Gasoline	14.40	10.0
□ Fuel oil	12.45	8.6
□ Propane	8.25	5.4

In addition, the current value of the fuel tax reductions for peripheral regions and certain other regions of Québec will be held constant, taking into account the effects of these reductions on the sales tax collected at the time of the retail sale, as will be the case in the reform when fully implemented. In this regard, see the heading "Taxation of fuel" in the "The fully implemented reform" section.

The application of Québec's sales tax to fuels as of January 1, 1991 requires that persons selling fuel on which the fuel tax has been collected in advance take an inventory of such products then in stock in order to obtain a refund of the portion of the fuel tax resulting from the reduction of the tax, using the form supplied by the Minister of Revenue for such purpose.

7.2.6 Taxation of tobacco products

Starting in 1991, Québec's sales tax will apply to the retail sale of tobacco products, calculated on the selling price including the tobacco tax and the GST. Considering the increase in the tobacco tax announced in the 1990-1991 Budget Speech and scheduled to take effect January 1, 1991, the tax on tobacco will be reduced to maintain the tax charge arising from the taxation of these products.

The tobacco tax planned for January 1, 1991 will therefore be changed and the new rates are shown in the following table.

Tobacco tax

	Rates according to the existing system planned for January 1, 1991	Rates as of January 1, 1991
☐ Cigarettes (cents per cigarette)	6.12	4.76
☐ Loose tobacco (cents per gram)	2.80	2.05
☐ Other tobacco (cents per gram)	8.07	6.72
☐ Cigars (% of sale price)	85	71

These changes will apply as of January 1, 1991, so that anyone selling tobacco, cigars or cigarettes on which the tobacco tax has been collected in advance will have to take an inventory of all such products then on hand to obtain a refund of the portion of the tobacco tax resulting from the reduction in the rates and amounts of this tax, using the form supplied by the Minister of Revenue for such purpose.

Finally, to maintain the contribution to finance the Olympic deficit at the same level, the rate of this contribution will be raised to 17.065 % of the tobacco tax collected as of 1991.

7.2.7 Duties on amusements

At the present time, a municipality may, under the Amusement Tax Act, impose a duty equal to 10 % of the price of admission paid to attend an amusement.

For the purposes of applying duties on amusements, the amount of the GST will not be part of the price of admission on which these duties are calculated.